BURBERRY

Burberry Group plc

Interim Results Presentation

Thursday, 17th November 2022, 9:30

Burberry

Jonathan Akeroyd, Chief Executive Officer

Julie Brown, Chief Operating & Financial Officer

Julian Easthope, VP, Investor Relations

Questions From

Antoine Belge, Exane BNP Paribas

Louise Singlehurst, Goldman Sachs

Rogerio Fujimori, Stifel

Chiara Battistini, JP Morgan

Zuzanna Pusz, UBS

Thomas Chauvet, Citi

Carole Madjo, Barclays

Kathryn Parker, Jefferies

Piral Dadhania, RBC

Anne-Laure Bismuth, HSBC

Charmaine Yap, Redburn

Jonathan Akeroyd, Chief Executive Officer
Good morning everybody, welcome to our fantastic flagship store here in Regent Street.

We have actually brought you here for a tactical reason - because the store opens at 11 o'clock, just about the time we finish, I'd highly recommend the Scarf Booth just around the corner, where we can just initial things for you. Great gifting, but there are plenty more things to entice you to spend. So we're expecting a very high level of sales today, so thank you for coming.

So I'm really looking forward to talking to you about our new strategy, but first of all Julie is going to go through our half year results, then I'll come on to my strategy and then we'd be delighted to take your questions at the end. Thank you very much.

Julie Brown, Chief Operating & Financial Officer
Thank you, Jonathan, and good morning everyone.

Since this will be my last in-person results presentation with Burberry, I'd just like to thank you for the support, and the challenge, you've provided to me over the last six years and also during a period of significant change for the company. It's been an absolute pleasure to work with you and be part of this amazing team.

In headline terms, Q2 comparable store sales growth accelerated to 11%, driven by strength in the majority of regions and a good recovery in Mainland China.

Leather goods and outerwear demonstrated strong underlying growth, up 15% and 13% respectively in the second quarter.

In terms of profitability, adjusted operating margins were slightly up at constant rates, with strong underlying performance, partially offset by inflationary pressure and investment in customer-facing activities.

Adjusted EPS growth was excellent, up 15% at CER and 32% reported.

The balance sheet and cash flows remain strong, with an interim dividend declared today, up 42% compared with last year.

And we made good progress across our ESG agenda.

Moving on to the abbreviated income statement and, as usual, I will refer to changes at constant rates. We are pleased with the performance in the half. Revenue came in at £1.3bn, a 5% increase and adjusted operating profit was £238m, increasing by 6%.

Overall we saw a stable gross margin as inflationary pressure was absorbed by the business

Adjusted diluted EPS increased 15%, benefiting from increased interest income, a lower tax rate and reduced shares in issue following the buyback programme.

Free cash flow remains strong at £88m in the half – slightly down on last year due to the accelerated build of inventory ahead of festive and higher capex as we prioritise investment in our new store concept.
Foreign exchange is a substantial tailwind in H1, taking revenue growth to +11% and adjusted EPS to +32%.

The adjusted operating margin benefitted from 10bps of underlying business improvement, despite disruption in China and closed at 17.7% at reported rates including a 140bp currency benefit.

Moving on now to our regional retail performance, Q2 comp accelerated to 11% growth, bringing comparable sales growth to +5% for the half.

The first two quarters of this year have been impacted by lockdowns in China and if we look at the underlying group performance, excluding China, the business grew 16% in Q1 and 15% in Q2, a good performance given the tougher EMEIA comparative in the last quarter.

Turning to EMEIA. We continued to show good growth delivering 34% in the half and 25% in Q2.

This was primarily driven by an increase in tourists that doubled in the mix to 40% in H1 with Americans and Middle Eastern customers the key drivers, while the local business was broadly stable.

The Americas fell -3% in the half and in the quarter. Higher AUR categories continued to do well led by the female customer, especially in leather goods but this was offset by pressure in entry level categories.

Globally, the US customer remains broadly stable this quarter as Americans transitioned to buying Burberry in EMEIA.

Taking a step back, the Americas is up more than 30% in terms of retail comp against pre-pandemic levels.

Asia Pacific fell -4% in the half, with Q2 accelerating to 11%, driven by the recovery of domestic spend in Mainland China and the strong performance in other Asian regions.

Mainland China was broadly stable in the second quarter despite localised lockdowns in September. This reflected good growth in menswear and a higher mix of elite customers.

South Korea saw a strong rebound to +11% in Q2 - a period of normalised growth largely unaffected by COVID. South Korea is our strongest market vs pre-pandemic levels, rising over 70% in the second quarter.

South Asia Pacific, SAP, and Japan delivered a strong performance in H1, with growth of over 40% and 25% respectively.

As mentioned, comparable store sales growth increased 5% in the period.

We saw a 1% contribution from space leading to retail growth of 6% at constant rates.

Wholesale increased 1%, however, within this we have two parts. Americas and EMEIA, excluding Russia, were up double digits. The adverse movements in wholesale were entirely due to halting shipments to Russia and the impact of COVID related lockdowns on Asian Travel Retail.

Licensing continued to see good traction rising 8%.

Overall revenue was up 5% at CER and +11% reported.

Adjusted operating profit rose from £196 to £207m in the half, with improved underlying trading of £39m partly offset by investments in the business in marketing, client activations and stores, as well as the impact of inflation.

We are pleased that the gross margin remained stable YoY despite a 70bp headwind from inflation.

This was offset with efficiencies, pricing and channel mix giving us confidence we can maintain a 70% gross margin over time.

Opex growth of 4% at CER was also well controlled with increases targeted to customer facing areas.

Currency was a major contributor as mentioned, bringing our reported adjusted operating margin to 17.7%.

We delivered £88m of free cash flow in the half with a conversion rate of 68%.

Working capital was adverse in H1, impacted by our decision to accelerate the inventory build in preparation for festive, together with receivable movements because of the timing of wholesale shipments.

Capital expenditure was £53m – mainly focused on investments in the new store concept and IT

We closed the period with net cash of £643m following the payment of the final dividend and the share buyback programme. The latter reached £180m in H1, with a total of £400m to be completed by the end of the year in line with guidance.

Following this, the balance sheet remains strong with net debt /adjusted EBITDA at 0.6x, including lease debt.

We are still at the lower end of our target range of 0.5x to 1.0x, with the increase from last year due primarily to the final dividend and share buyback programme.

Moving now to the main operational initiatives in the half. Starting with brand, in September we debuted our Spring Summer '23 collection, celebrating the British seaside. The show, which was Riccardo Tisci's last for Burberry, was streamed across local and global platforms where it was watched 1.5million times.

In product, leather goods saw good momentum with comparable store sales increasing +15% in Q2 and +11% in H1. This was supported by the expansion of our Lola handbag range with 80 pop ups launched in the period. The Lola is now our best seller and along with the introduction of the Frances shape for Autumn Winter '22, our leather goods offer grew well ahead of the group average.

Outerwear saw comp growth of +13% in Q2, a good recovery from Q1 and with a strong performance across both Men's and Women's.

We continued to invest in our customer experience and as part of our new OTW campaign, we launched over 40 pop ups as well as impactful visual merchandising displays and outdoor experiences for top clients.

We also continued to roll out our new store concept and completed 22 stores in H1, including Taipei 101 and Bal Harbour in Miami.   We remain on track to complete 65 stores in the new concept this year.

Moving on to our ESG agenda. Regarding Product, we continue to make progress on our commitment to ensure our key raw materials will be certified and fully traceable by 2025. 95% of our leather is now from tanneries with environmental and social certification.

In relation to Planet, in August, Burberry became the first luxury fashion brand and one of the first companies globally to receive approval from the Science Based Targets initiative, SBTi, for our net-zero emissions target.

Regarding People, to support our colleagues, we brought forward the new UK real Living Wage pay rates by more than six months.

And finally, under Communities, at the beginning of November, we announced 2 new Burberry Foundation partners, International Youth Foundation, and UK-based OnSide, the first step in taking the Foundation's new youth empowerment programme global.

We will also be engaging employees across all regions in a global Festive volunteering competition where proceeds will go to FareShare, a national food charity.

And now onto the current year. Overall, we maintain our near term guidance to FY'24. We are mindful of the challenging macro environment and its potential impact on trading, particularly COVID-19 related disruption in Mainland China and recessionary risks in Europe and the Americas.

Broadly speaking there are very few changes to the outlook comments we made in July. We are still expecting retail space and wholesale to be broadly stable for the year. Wholesale is impacted by halting shipments to Russia as well as a cautious outlook for Asian travel retail.

The effective tax rate is expected to be around 22% and Capex is expected to be around £170m, at the lower end of our previous guidance as we benefit from efficiencies in the new store concept roll out.

I would like to also mention for modelling purposes that we are back to a 52 week year in FY23 and models should be adjusted for this with all the impact in the second half.

And finally, currency is now expected to be a revenue tailwind of around £170m and profit of £70m.

In terms of concluding this presentation, we have created a strong platform for revenue growth, with significant channel rationalisation and a reorientation of the business into a full price company.

The cost base has been targeted towards commercial areas of the business, with cost savings reinvested and margin accretion coming from top line acceleration.

The capital allocation framework, in place now for over 5 years, continues to guide our deployment of cash in the business, our returns to shareholders and the maintenance of a strong balance sheet.

We expect to maintain a strong level of cash conversion throughout our plan. I'll now hand over to Jonathan to take you through the plans as we develop the next phase of Burberry. Thank you.

Jonathan Akeroyd, Chief Executive Officer
Thank you, Julie. So since joining Burberry I have had a great opportunity to get to know the business. I have visited many of our stores, I have seen our manufacturing facilities both here and in Italy and of course I've met many of our teams. I have been really blown away by the passion and energy that we have in the business.

But there are three things that have become very clear to me. The first is Burberry's extraordinary heritage and the 166-year legacy that we have. I never realised that we had such an incredible archive. Yesterday somebody called and we've just purchased an incredible dress from the 1970s. And if you think about it these things are things that our designers can use, they can dial up and it's an incredible resource that we can have. Very few brands in luxury have this and it allows us to create an emotional connection with our consumers.

The second is our Britishness. We are the only luxury brand of our scale that can claim this. It is a unique attribute and that will enable us to standout in the highly competitive market.

And the third is something I have mentioned before which is the very strong platform that Burberry has for growth. Burberry has always had very strong fundamentals and unlike other brands consumers know us for multiple product categories, from apparel to accessories and this breadth will give us room for scale.

We have a very well-established network of stores in key luxury locations that I've been impressed with that does not require further expansion.

We have a strong digital legacy and as digital pioneers in the industry which will enable us to capture growth in this fast-expanding channel.

And this platform has been further strengthened by the great work that the teams have done recently to elevate the brand and the business. We have now got a focus on full price, the brave decision to remove markdowns, we have already reenergised the product, we have refreshed our stores and we have rationalised the cost base. I feel really lucky to be joining here at this time.

For me the next phase is about realising our potential as the modern British luxury brand. And I think all of these three words are very important to what we stand for. This is going to be about building on the strong foundations that we have and leveraging what makes Burberry special. We will take the richness of our heritage and our unique attributes and reinterpret them with a modern vision and aesthetic. And we have an opportunity to really harness the power of the brand which will drive growth.

So our focus on the next phase is on revenue growth and acceleration. In the medium term we will target revenue of £4bn, which is in line with our existing guidance of high single digit revenue CAGR. But I really believe that we can go further than this. In the long-term Burberry has the potential to be a £5bn revenue brand and our ambition is to get there. This will drive significant operating leverage, increasing our margin to over 20%.

As I have said we have a very strong platform that we can build on. But for me this is more than just about evolution. In each area of the business I believe there are further opportunities to unlock growth.

For example, in brand the elevation has been clear over the past few years, and it has been very impressive. Now we need to focus on improving brand clarity, broadening our brand appeal and leveraging on our unique Britishness.

And similarly in distribution, we have done great work on the network and in the next phase we'll accelerate our refurbishment plan and drive e-commerce growth.

But ultimately in our luxury fashion business it is product that matters the most and this is where I see we have the biggest opportunity. We have made good progress in leather goods, but I believe we can do even more in this category to complete the assortment and drive stronger desirability.

In addition we have untapped opportunities in key categories, particularly shoes, women's ready to wear and outerwear, which I'll talk about later.

So in the next phase our focus is on three areas, brand, product, and distribution. We will harness the power of the brand, we will bring all product categories to growth and their full potential, and we will strengthen distribution.

So I am going to start with the brand. And before joining Burberry, I think have mentioned this before, I have really recognised and acknowledged the brand evolution journey that took place. And now that I am here there is no doubt to me that Burberry is firmly anchored in luxury. This chart here from our research shows that there has been dramatic increase in the share of our consumers who now see the brand as luxury.

Going forwards, there is an opportunity for us to clear about what we stand for and appeal to a broader set of luxury consumers. I believe our brand messaging at times could be a lot more powerful and at times it has felt a little bit niche. And the best example here for me, and I'm sure a lot of you are aware of this, is when you land into Heathrow, we have got this incredible buyout of the landing hall. And you see all Burberry advertising everywhere and it kind of brings – I'm so proud to work for the brand that has this, it's really impressive. But then when I look at it, I don't think it gives a strong enough pull to the brand and stores that we have here. And I actually get a few people calling me and calling this out and saying, wow it's very impressive, but I didn't quite understand it.

We have already worked on that, I think when you fly in next time, you'll see our incredible festive campaign and you'll see a lot more clarity and a lot more pull, I believe in the coming months with these campaigns and activations.

I believe our brand message could be a lot more powerful. For example – as we move onto next year, we will be making our campaigns and brand activations more relevant, more coherent, and more connected to who we are and what we offer.

One of the key ways that we can improve our brand clarity is refocusing on our Britishness. As I said earlier, this is right at the heart of product and brand, it is who we are and where we make our iconic products.

Our Heritage Trench Coats are made and woven in Yorkshire and even the fabrics, as you know, is woven in the UK. Our beautiful woollen scarves are made in Scotland. We have had a relationship with our supply here for 122 years. And again, the research tells us that this is what our customers associate us with. And we will make much more of this unique attribute in our brand storytelling and we have a really compelling story to tell.

In the next phase we will strengthen our connection with Britishness through product, cultural partnerships, working with British talent and finding ways for our brand to be more visible in the home market.

London and the UK as you know has some of the best creative talent in the world. We haver an opportunity to really celebrate this more and we will create a platform for the best British creativity across all fields.

So Daniel Lee will play a key part in this next phase, I'm so pleased that he's now with us as our new Creative Director. When we first met, to me it was really clear that he had a very strong understanding of the brand and Burberry's heritage and the opportunity to dial up on Britishness in a modern way.

We share the same vision of how we can achieve this across brand and product, building on what we have today. We will bring to life modern British luxury as a desirable and relatable lifestyle.

But one of Daniel's key unique talents is his product sensibility. He has a strong record, as you know, in creating bestsellers, particularly in accessories. He has an incredible vision of how this can be executed, with a full 360 approach. And I have been really impressed with what he has been able to do in the two months that he has been with us already and I am really excited to see how this will evolve in the coming months.

Burberry has always had an ability, I think, to create strong and powerful brand messaging through marketing and consumer activations, with a high level of impact. This you can see here is our recent Lola pop up that we did in Hangzhou China, and it is a great example. We had an incredible reach and it created brilliant visibility and buzz. We had a 43 million reach – posts from VIPs and influencers and a 24 million reach from the press coverage that we had.

There are very few brands that can do this I think at this scale and achieve the level of impact and visibility that Burberry does.

To build on this going forward we will put product front and centre in all of our communications and place a bigger emphasis on Hero products. We will be clearer about who the Burberry Man and Women are. And we have a particular opportunity in womenswear which I'll talk about later. And we will continue to come up with innovative and disruptive campaigns.

Another significant area of opportunity is our customer. And the objective here is to accelerate the way in which we acquire and retain new clients. This is a new area of focus for us, and it will drive significant commercial results.

We actually have a great starting point, and our customer base is well balanced across genders and ages. And our retail teams have done a great job in developing a stronger local business post COVID and this has been achieved across all regions and is something that we will continue to build on.

But looking ahead we will strengthen and deepen the relationship with our consumers by creating a compelling and engaging proposition from product to purchase. We will drive loyalty and retention and increase our customer lifetime value.

This starts with acquiring customers at a pace. Since joining I have set aggressive targets to grow our database. And this year already we have already expanded it by 20% versus last year.

To support this plan we are prepared to make the necessary investment. We will increase our marketing and consumer facing spend in the next few years, especially to support the launch of the new creative vision.

As revenue scales consumer facing spending as a percentage of sales will stabilise at high single digit levels. And I am confident that this level of investment will still allow us to deliver our operating leverage and therefore improve our operating margin.

So now onto product. We have a very strong product base, with well managed inventories and a good balance between carry over and newness. Our ambition now is to grow accessories to more than 50% of our business. We have a good foundation in leather goods, but we can make this category even bigger and significantly grow our shoe business.

One of the key differences here will be Daniel, as I mentioned he's a product focused designer with a rare talent for accessories and an excellent track record of creating bestsellers in these categories.

But it's not just accessories, we've also identified opportunities across other key categories, which will help accelerate our growth.

We have set clear goals against each category in the medium term to double leather goods, more than double shoe sales, double women's ready to wear and grow outerwear by one and a half times versus today.

So starting with leather goods, it remains a crucial ambition and element of our luxury positioning and our ambition is to roughly double this business. We are starting from a good foundation, and we have had good traction so far this year. Sales of leather goods are up double digit, driven by our Lola families which are just over there and also our Frances bag there. And I think the other in the base that we have is very strong. With a new stronger offer I am confident this goal is achievable.

Daniel has the creative vision to bring an even greater level of desirability to the offer. He has already visited our manufacturing base in Italy, and he has been impressed by our capabilities that we have there, as much as I have been. We will be looking to him to extend his strong record of creating highly desirable icons in women's bags. And additionally we will expand small leather goods and take advantage of the clear opportunity that we have in men.

So shoes have been a huge growth category, as you know in the industry, but it is a relatively small share of Burberry's business. Our ambition is to more than double our sales of shoes. And again, this is something I am comfortable we can achieve. I have done this in my previous roles and the platform is there. We have a great space allocation in our stores, and we will be able to leverage quickly on this to drive incremental sales.

To capture this opportunity we will build the offer to cover both formal and casual wear, we will strengthen our existing snicker business and we will seize an opportunity that I think we have in the outdoor categories that people naturally associate Burberry with. And again, shoes are an area where Daniel has a strong track record and the talent to create a unique and compelling offer.

So women's ready to wear is another category where I see a lot of opportunity. The current offer is not as strong and balanced as it could be. And at times the offer in our stores does not reflect what you see on the runway. I want to rebalance this and double sales.

The first thing we need to do here is to really develop a distinctive aesthetic for Burberry womenswear. Based on this we'll create an everyday luxury wardrobe that is relatable and wearable, and we will rebalance the assortment, particularly in under-represented categories like dresses. And then we will make sure that this new offer is properly represented in depth across our store network.

And I have mentioned women's here, but to be clear we will have a similar approach with men's ready to wear and we will continue to evolve this business to take advantage of the industry momentum in this category.

As you know outerwear is already a strong part of our business. Globally, we are perceived as a leader in luxury outerwear. We have a real strength in this category supported by iconic products that customers love. And I have actually been really impressed with our performance and we intend to really build on this.

We will do this in two ways, by reinforcing and protecting our Hero products, which are already loved by our customers, such as our iconic trench and developing other outerwear categories such as quilts and downs, where we have also seen good growth recently. This is a key opportunity for us and something that we want to own.

We have done some really strong standalone outerwear campaigns, such as the recently launched Nightwear Creatures campaign and we want to build on this. And already Daniel has shot his first campaign, which is our first dedicated rainwear campaign in four years, and we will launch this in January.

So, moving on to distribution, we will continue to focus on elevation and execution across all channels and regions. We've set new targets for the medium term to convert all of our stores to the new store concept by FY26 to significantly improve our store productivity and reach sales of £25,000 a square metre, and in e-commerce, to double sales and achieve a 15% retail penetration.

In terms of retail, I've been to many of our stores, and I believe we are in a very good place overall. We have the right number of stores, they're in excellent locations and the ones that we've refurbished are performing well in the new store concept. Our focus on the next phase is on transforming our productivity and accelerating refurbishments.

To date, our stores are still a mix of concepts. Just as an example, I was in Las Vegas in July, and we have three stores in Las Vegas, one of them is in The Forum Shops in Caesars Palace, great store, great location, but it's in the old store concept. And then you travel five-minutes away to Crystals Mall, and there's a brand new Burberry store in the new store concept. This creates a little bit of confusion and I think people, you know, will really be excited to see a much strong consistency when they travel around our stores, not just nationally but globally. We need to step up our investments to accelerate the conversion of our network and present a consistent brand image and experience for our customers.

As I mentioned, I've been really impressed by the new store concept, I think the design is compelling, it's a great customer journey and it feels very natural, and the layout showcases product very well in a contemporary way. And I'd also like to highlight here that some of the old store concepts were obviously built around showing more ready to wear, so, as we adapt that concept to the new store concept, we'll get a much better balance between all of our categories.

We believe that the concept is strong, but we will also bring in some additional touches and enhancements that will feel very organic but in line with our new creative vision. Our goal is to reach £25,000 a square metre in the medium term – this is more than a 50% improvement on our productivity today, but it's still below best in class. We have a clear plan to achieve this.

Success in accessories will automatically give us a high level of productivity and, in addition, we will maximise opportunities to drive traffic and conversion through small leather goods, belts and small accessories, for example, and we will improve our clienteling, retail excellence and the omnichannel journeys, and I'm confident that we can achieve this target.

We will convert all of our stores to the new store concept by the end of FY26, and we're committed to investing behind this plan.

In terms of wholesale, great work has been done in the last five years, and we have a very well-manged and elevated wholesale distribution network.

I was quite curious when I went to America because I know that that was a callout that we needed to work on some of our positioning – this was over five years ago – so I was quite curious to see what I saw, and I was very impressed with the stores that we have there in key locations, and most of them, actually, were in the new store concept. I think the wholesale transformation has been very well-managed.

On top of that, our partners are really excited about Daniel, and their anticipation is building for his first collections next year. We intend to capitalise on this, and we see opportunities to develop a stronger presence in key wholesale doors, particularly to attract new customers as we grow our business in accessories and womenswear.

In the medium term, we expect our wholesale penetration to decrease over time to 15% of our full price sales as our growth outpaces wholesale.

As you know, Burberry has a strong reputation for being a digital first company, often pioneering activities. We can achieve a stronger level of productivity and also a greater integration into the retail network through stronger omnichannel capabilities.

We've a significant opportunity to improve our e-commerce performance. Following the removal of markdowns, we are underpenetrated in this channel relative to some peers. Our target is for e-commerce to represent 15% of our sales in the medium term and around 20% in the long term. And again, I think new product is what will drive more traffic to our e-commerce platforms.

We also have a comprehensive plan to improve conversion and drive performance. We will refresh our site in line with the new brand aesthetic and place a greater focus on product desirability and innovation, and we've already started work on this. We will ensure we have a compelling product assortment for our website, and we will also invest in strengthening our local teams – especially in China and the US, which are our key digital markets – and we will also improve the customer experience.

We have an opportunity to deepen the relationship with our community through innovation, which we're strong at, building on successful initiatives, like you might have been recently with our collaboration with Minecraft which was our first 360-degree gaming initiative. Since first teasing the collaboration, we've generated a huge level of interest from our consumers, and we have over 160,000 sign-ups already, which is an unprecedented number, driven by a singular activation, and we've also had a huge amount of downloads onto the game.

So, moving on to our core markets, our goal is to accelerate momentum while maintaining a well-balanced portfolio. In Americas, we have great brand awareness, and the network is there, but, compared to Asia, we're behind in terms of our refurbishments, as I mentioned, so, we're going to accelerate our store refurbishments here.

In the EMEIA, we've recently developed our business with locals post-COVID and already have seen tourists starting to come back, which is great. But similar to the Americas, we need to speed up our refurbishment programme to be in good shape for when the tourist flows fully resume.

In Asia, we have a significant opportunity to further scale our business. China is a very important market for us. We have a very well-established network here with some recently opened stores in impressive locations, such as Plaza 66 in Shanghai.

Our stores in China consistency outrank among the top seven by revenue in key luxury malls. We will continue to focus on the market, ready to capture growth when the region fully reopens.

Finally, I believe we have a clear opportunity to grow our business in Japan, which is relatively small at the moment, and our focus on accessories will support us gaining market share in this region.

So, I've talked in detail about what we're going to do about brand, product and distribution, how we do it will be just as important, and execution is the key.

We are already working on initiatives to ensure a seamless execution to our plan, including improving our product development capabilities, ensuring a better connection between design and merchandising, and simplifying our key processes to ensure adherence to the critical path and drive cost efficiency. I'm going to provide more detail on this at our Prelims in May.

With responsibility, it will remain the heart of everything that we do. Again, I've been really impressed with Burberry's purpose and values and commitment to making a positive difference. I believe that we have an opportunity to make more of this in our communications and our product initiatives. Customers want to know these things, and it is really part of what connects them to the brand.

We will continue to deliver on our bold sustainability commitments. We will also ensure our people are supported and inspired to deliver, and we will continue to positively impact our communities.

So, in summary, we have a very strong platform for growth, we have a clear plan to achieve this, focusing on brand, product and distribution, and it will be supported by a relentless focus on execution. We have a very talented designer, and we have very passionate teams, and there is a real energy and excitement at the moment around the business.

In the medium term, we will target revenue of £4bn, in line with our existing guidance of high-single-digit revenue CAGR, and, in the long term, once brand and product initiatives are firmly in place, we can, and should be, a £5bn-revenue brand.

Obviously, there is currently some uncertainty in the external environment, however with our plan and good execution, I believe that we can still grow and accelerate and achieve our ambitions.

These are the targets we will measure success by in my medium term, and I'm going to update you on them as we progress, and as I've said, we're prepared to invest behind this plan.

We're really writing the next chapter of Burberry's story. I'm confident that we can deliver on this plan to drive revenue growth and acceleration and realise Burberry's potential as the modern British luxury brand. It's very exciting and thank you very much, and we'd be delighted to take your questions now. Thank you.

Question and Answer Session

Julian Easthope, VP, Investor Relations
Thank you, I must admit the one thing that I didn't actually practise was trying to recognise people from this distance, so apologies if I don't recognise everybody.

I'll take Antoine first and then I'll go to Louise. Thank you.

Antoine Belge, Exane BNP Paribas
Good morning, I assume we are limited to two questions. So the first one is short term and then the second one more longer term. So short term the organic growth was 5% in H1, you didn't reiterate the high single digit for the year, so should we assume that this target of high single digit is no longer valid for the current year? And maybe explain what are the current trends in China, you were flattish in the quarter, but apparently some of your peers mentioned that it worsened in September and October, any comment about the rest of the world so far?

And the second question, longer term, so £4bn and then £5bn, is it possible to have a sense of what medium term means in terms of years and longer term? And on the 20% +, or ++ I mean I don't know I'm just throwing number here, £4bn – would I don't know mid 20s be a good proxy then £5bn high 20s, any sort of like trend? Thank you.

Jonathan Akeroyd, Chief Executive Officer
Thank you. So I'll take the comment on China and the current trends there. As you know we had a challenging first quarter and in the second quarter we had a good recovery and we ended up flat. It is still challenging for us, as you know the footfalls in the malls are not as good as they could be. We did see a slightly change coming through September and October, but again we are confident that things will hopefully open up and improve in the coming months.

In terms of the timing, we see medium term as three to five years. And I felt driving this strategy it was also really important for not just you, but also for our employees to see the ambition that the company should have without a timeline.

And Julie if you can talk in the short term.

Julie Brown, Chief Operating & Financial Officer
Yes, so just in terms of the guidance, clearly, we've – the underlying business has grown strongly, so as we mentioned if you strip out China, which has been the most disrupted by COVID, then we have actually delivered 16% in the first quarter growth and 15% in the second. That gives us the confidence, you know together with the strategic direction we are going in, to be able to grow the business strongly in high single digits.

The caveat we put on the outlook statement was simply because of the disruption in China. We saw a good recovery in the second quarter, however in October it got slightly worse again. More recently they have relaxed some of the quarantine rules and they have also reduced the degree of mass testing in China. So it is interesting, it's not so much store closures that are causing the disruption, but the testing actually causes people to be reluctant to go out. And that is what is causing a little bit of turbulence.

But with that underpinning it, we believe that you know come the following year in full year '24, we should see a recovery of China. This is the view, that gradually we'll have a more pragmatic approach to it. And therefore we see the high single growth rate coming through, because that is how the business is performing on an underlying basis.

I think in terms of the question on the margins, we are fully committed to delivering around a 20% margin next year, which was our promise to the market. We are fully committed to delivering that. And we can accommodate – I think removing the mark down, etc, the gross margin being stable, we can accommodate the rises we've been having in marketing and visual merchandising within that number. So we see us being around 20% next year.

And then the idea is that because we've got the cost base under control, we're focusing on the commercial activations, the commercial frontend, and the store rollout, you get leverage coming through the P&L, naturally dropping through to the operating margin and that is what drives above the 20% margin accretion as you go through into the next phase of the strategy.

Antoine Belge, Exane BNP Paribas
Thank you, just maybe a follow up. So what you are indicating is that there is no special sort of like timing of the margin expansion, I don't know, more subdued in the first years and an acceleration in the outer years?

Jonathan Akeroyd, Chief Executive Officer
I mean we think it will naturally evolve. I mean as I mentioned earlier, I think the platform has been there. We have also a very good base of carry over product. So you know in my opinion – obviously we're going to invest a little bit more on marketing here, we don't see that will have a huge impact on the margin and we think it will just organically lift up as we improve our productivity.

Julian Easthope, VP, Investor Relations
To Louise.

Louise Singlehurst, Goldman Sachs
Hi morning, thank you for taking my questions. If I could start with Jonathan first, please, just in terms of the broader – the bigger picture in terms of the goal and the ambition setting. Is this more about the growth of Burberry, or is it looking at the categories versus peers and where you think you're going to be in the market?

And I suppose if I was to pick on one area, to have a largely apparel brand, what's the confidence in terms of driving 50% of the business coming from accessories?

And just related to that, does accessories give you more opportunities to drive the brand heat on a more frequent or higher frequency basis and are we likely to see any new product from Daniel Lee ahead of July I guess, given the timing of the fashion calendar?

Jonathan Akeroyd, Chief Executive Officer
Great question, I mean I think as I sort of touched on right at the beginning, we have an opportunity because we have a strong ready to wear business, I think this is a great position of strength for us.

You know I am very lucky also that the journey and the work started with accessories four years ago. I think it is really important to call out what our accessory offer was before that, you know it was very weak. And now – you know looking around what you can see here we are in a good place with our accessories already. I believe we can really, really develop on that, I think we can really accelerate on it.

This was one of the key decisions of bringing Daniel in, because his talent on this is unquestioned. We already have a high level of expectation. In fact last night I left, and I saw our Head of Leather Goods and I said, you know how's it going, can you give me more information. And she said, I'm so excited, she said the designers are excited.

So I'm confident that we are going to have a much more – even more compelling offer than we have today, which we will launch in February, so I'm very excited about that.

And yes, for me – the business that we're in is product and we are retailers and all of us, this isn't just me, all of us see opportunities across all of our product categories. And accessories I really think we can accelerate.

I called out shoes here, this was one of the first things I noticed – in one of the first meetings we had on shoes, I've learnt very quickly that people talk about what you say in the meetings, and it quickly got around that Jonathan sees this huge opportunity in shoes. So it's really, really exciting, because we've got the strong ready to wear offer and we can accelerate the accessories.

And with regards to seeing – we have our first show in February, but you know that is not to say – you know we're confident that we can continue, we have had 11% growth this quarter on our bags, and we believe that we can continue that momentum as well.

Louise Singlehurst, Goldman Sachs
Thank you. My second question was for Julie if I may, just in terms of just back to the margins. Can you just talk about the opportunity within the gross margin I guess coming back on the accessories' expansion, I presume the bulk of the margin uplift now comes from pure operational leverage with the store productivity, but is there scope as well in there for the gross margin?

And I would like to take this opportunity to say thank you very much for taking all of our questions over the last few years, so a big thank you there.

Julie Brown, Chief Operating & Financial Officer
Thanks, thanks Louise, it's been an absolute pleasure to work with you all, it really has.

So in terms of the gross margin, I think as you know one of the pressures on the gross margin is coming through inflation. And so even just in this first half we had 70 basis points of headwind coming just from inflation, this was freight, logistics, etc. So actually I think you know we – and credit to the team and the combination of commercial, finance, merchandising, we have been able to hold that gross margin stable against these considerable headwinds.

There is also a headwind whenever we have got lockdowns in China, there is a margin headwind coming through there on the gross margin and the operating margin. So I think we have actually done well to maintain it. Because we see inflationary pressures going forwards on costs of goods in the region of high single digits, actually the business has got to drive efficiency and also look at the pricing of categories to be able to hold that gross margin stable in view of the macro situation we are dealing with.

So I would say, holding the gross margin stable, but at the same time leveraging through the top line into the operating margin is the key to success. And as Jonathan mentioned and as you know we have done a lot of work on rationalising the cost base. We have put more money into commercial facing investments, such as marketing, visual merchandising, the store network. The idea is now with the high single digit growth rate on the top line you can leverage the operating cost base.

And store productivity, it's one of the reasons we have called it out – you know the £25,000 per square metre, that is the major unlock of the operating margin leverage, because we have got a really good store footprint as Jonathan mentioned, a lot of work has been done on the store footprint, we are in exactly the right locations now. Once they are refurbished and we have got a more homogenous representation of the brand it will drive the retail productivity and that drives the operating margin. That's the biggest ticket.

Louise Singlehurst, Goldman Sachs
And there's no margin reset for next year in terms of everything that we see in the guidance looking forth, that was obviously one of the investor queries going into today that we might have to see elevated investment of the top line performance, that's not the message?

Julie Brown, Chief Operating & Financial Officer
No, because we've actually allowed and you probably saw from the chart on the marketing spend, we have accelerated the marketing spend already and simultaneously we're moving the margins upwards. And so therefore you can see we can actually leverage the margin and deliver a high level of marketing and visual merchandising spend, which is what we're doing.

Louise Singlehurst, Goldman Sachs
Thank you.

Julian Easthope, VP, Investor Relations
Okay, maybe we'll go down the line, Rog and Chiara and Zuzanna, thank you.

Rogerio Fujimori, Stifel

Thank you. I have two questions, if Daniel Lee's products arrive in stores next summer, I just want to confirm that in terms of managing the transition of collections, if we should expect a relatively smooth transition versus the last one, which we saw a few years ago?

And the second, I think from your presentation in terms of 70% gross margin being sustainable and everything we've heard in terms of price value equation versus competition after elevating AUR so much, the quality of the wholesale network and the outlet footprint, are you happy with the current situation and no further rationalisation needed or investment needed on those fronts? Thank you.

Jonathan Akeroyd, Chief Executive Officer
In terms of the product transition and this is something that actually we all felt, and we still feel that the platform that we have here is strong and something that we can build on. I believe previously there probably was more of a flipping in the changing of any inventories. We do not intend for this to happen.

And I have been very impressed by Daniel's maturity at looking through the collections that we have, the carry over that we have, we have gone through it together with our teams. And he has got a very good outlook on that, recognises it, sees that it is a base that we can build on and this is something that we can organically change and improve as the seasons progress. So in terms of that we are expecting this to accelerate growth.

In terms of the gap that we are obviously going to have between now and his first collection sitting in the store, I mentioned earlier, we have already shot our new campaign that we will show you in the early new year. This was shot by Daniel, with existing product that we have, with our great trenches. And I think that actually tells something to be honest with you, I think it's a great thing to do. And this is going to be a really good strong brand campaign. And I think that will get people – it's also anticipated because people are going to see that, they're going to see – I promise you, you're going to see an incredible strong brand imagine that will relate to everything I have talked through there. I think this is going to get people really starting to see it. They are already excited, they will be more excited then, then we'll have our show. And I believe we have the right offer today that we can continue to sort of drive that through. So I'm confident about that.

In terms of the margins, I think we've been managing the margins very well – the gross margins. We are also looking – you know working on price increases where we have the opportunity to increase price, but it is being done and well managed. I also see some opportunities on cost of goods as well, which we can develop on. But at the same time we are looking to elevate the product and elevate the quality further as well. And this something that I think is going to be very enjoyable for us to work on.

Concerning the outlets, I mentioned this last time, I think we have the right number of outlets, we're not out of line with many of our peers. I think the network is very well managed. As you know we are now not marking down our inventories, so we need a channel to work through our discontinued product and it is working well. And obviously as our full price business grows that will achieve the mix of our sales on outlet versus our full price business. But I am actually pretty pleased with the way it's managed, the quality of the outlet network and the offer that's in there as well. I think it's an important channel for us.

Julian Easthope, VP, Investor Relations
And Chiara.

Chiara Battistini, JP Morgan
Good morning, thank you for taking my questions. The first one is on your stores and the sales density target of £25,000. Can you just remind us of what the starting point is today on that and how you're thinking about footfall vs. conversion vs. basket going forwards to get to the £25,000 per square metre?

And the second question, on Daniel Lee you mentioned that you've been very impressed by how much he's already done since joining in the last couple of months. So has he been mainly working on the product or also looking at the stores – providing comments on the store refurbishment programme, the marketing campaigns, to what extent has he been exposed also to these activities?

And just on the product – just to make sure we're clear, the leather goods offering, the current leather goods offering is the starting on point on which it's going to evolve, but not revolutionise, at least in the first couple of years? Thank you.

Jonathan Akeroyd, Chief Executive Officer
Great questions. As far as the densities are concerned, we're not going to share with you our current densities. I think people are pretty much aware of what they are. We're making good progress – in the last two years, our densities have been improving.

I think you're also aware some of our stores are quite big, but, if you go to Asia, for example, and in many of our stores, we actually have very strong densities. So, you know, we have stores with densities of £40,000 a square metre. So, we are already driving productivity.

As I mentioned earlier, I'm very happy with the size of the network, and, going forward, we will be sure that the openings of any new stores that we have are in the sizes that they need to be.

We feel confident about the productivity increasing because of the improved offer, because of the better focus on retail quality and standards that we have in the company now. This, to me, has been one of the most impressive things that I've seen since I've been here. I think the quality of our Retail teams, some of them you'll meet today when you're buying your scarves [laughter], the quality of our Retail teams are very close, if not best in class, in my opinion, and they're very focused on productivity, they're very focused on clienteling, which I think has been, you know, good work that's been done, particularly in the last few years.

So, as far as the densities there, it will be driven by the better offer, the improved qualities in our Retail teams, the improved focus on network size in terms of store sizes and, obviously, we believe we've made these moves to create brand heat and to create and drive extra traffic to our stores as well. So, there's a number of combinations here that give us the confidence that we can achieve this.

In terms of Daniel's focus to date, again, a very unique talent and, you know, since announcing him, it's been made even clearer to me that this is very exciting because our wholesale partners have reached out to us super excited. Our Head of Korea was in a meeting with a landlord in Korea, which also is a very strong and important market for us – I didn't call it out, but our Korea business is incredible – and she was in a meeting with one of the landlords when it was announced, and the guy was jumping off his seat with anticipation. So, everybody's really, really pleased about that.

But he's also got a very strong, I touched on that 360 vision, and I think this is really important in today's, kind of, modern luxury retailing where it's not just about product in the stores, it's about, you know, how we're communicating them. I think, if you look at, you know, some of the work that he's done, it's building on high desirability in terms of product and product messaging, and then activations around that.

We're not going to be doing new store concepts. He's been in these stores for – I know that when he went to the Sloane Street store, he was in there for two-and-a-half-hours with our teams going through it and making just really good callouts about what can be done. But it's not about changing the concept, it's about evolving it, making it feel more in line with the progress that we're getting. So, he's really involved in that.

And I mentioned earlier on, you know, we shouldn't underplay the importance of branding because when we get that branding right, you know, that is also a really important, I don't often use the word 'cool' but, you know, I believe that, you know, when people see us, when you're flying into Heathrow, going forward, you're going to go – that is a cool brand, that is a cool British brand, and that's going to drive me into the store – and, again, he has a very strong touch on that.

And then, lastly, on the leather goods, we have the platform here, he's seen it, he likes it, he thinks that it's a platform that we can develop on, and we believe that we're going to get an even exciting offer to layer up on top of that. So, it will be a development of our existing offer.

Julian Easthope, VP, Investor Relations
Zuzanna next, I think, thank you.

Zuzanna Pusz, UBS
Hello. Thank you for taking my questions. I have three short ones. So, maybe just to follow up on the store concept, I don't know, would you be able to, perhaps, guide to capex in the mid-term? I think, previously, it's a part of the mid-term plan, I think the capex was meant to be around, I think, £250m or so per annum, but I don't think it ever actually reached that level. It was, sort of, consistently lower every year. So, maybe if you could give us some, sort of, at least an idea around the level we should expect? That's my first question.

Second question is specifically on the, sort of, ramp up of SKUs from Daniel Lee in stores we should expect over time. I know it's probably difficult at this stage, it's still early, but if you could give us some idea, you know, first quarter, what percentage of SKUs would come from the new collections and how this will progress over time?

And finally, just to follow up, first of all, I wanted to say many thanks on behalf of everyone for disclosing the online penetration and sales densities, it's very helpful. It's been always our dream. If I could only add one dream to the list, that would be marketing as a percentage of sales. But, just to clarify, will you be disclosing this every year, just so that we can, sort of, manage our expectations? Thank you.

Jonathan Akeroyd, Chief Executive Officer
Okay. Well, Julie will start on the capex, and I'll go back to the interesting question on the digital penetration.

Julie Brown, Chief Operating & Financial Officer
Yes. So, in terms of the capex, there is a step up, first of all, the stores, we've been running the stores at around £110m. We're going to move the stores spend to about £120m because we want to accelerate them to finish them all by full year '26 basically. So, that's the idea of the stores.

In terms of the IT spend, it's fairly consistent. That includes digital capabilities. On top of that, we're also accelerating ESG over this period, and then, finally, the final piece is in office refurbishment. So, we're going to refurbish the Horseferry House buildings in line with the plan that we've been developing now for a little period of time.

So, there will be the £200m, I think, as Jonathan mentioned. I would expect, as the Horseferry House finishes, which is probably going to be a two, two-and-a-half-year programme, then it will start to come back, but stores, we anticipate staying at around £110m for a number of years as we push the new store concept through the network.

Jonathan Akeroyd, Chief Executive Officer
Great. On the SKU question, as you know, our business, we've got a very good blend of business because carry over and permanent product, replenishment, it's, when you've got a strong business there, it's very good for margin protection, it's very good for iconic product, things that we can build on, you know. The Trench offer that you see here is incredible, handmade in the UK. So, got some really great product that, of course, we need to keep and develop and do more storytelling with. So, if that's 50% of our business, as we then work with the Daniel, you know, you're talking, obviously, the newness side of that, the seasonal side, will be around about the 50% mark.

And, you know, we also believe now that it's important for us, and this is something also that we've learnt, is making sure that you're getting another help for this productivity goal that we have is not overbuying in terms of ranging of SKUs but actually reducing, and we've been doing this over time. So, reducing the SKUs, getting the depth in, believing in the product that you're buying and you're putting into your stores, making sure you've got a greater consistency across the regions – another area that we're working on – and that will help us, you know, have a stronger, more consistent messaging, but also, I believe, it will help us drive the extra level of productivity. I think it'll be a nice blend, a nice balance.

And, again, just to be clear, Daniel's very impressed with, you know, the core product base that we have, and it was something that, you know, he mentioned to me very early on about this just iconic product that we have, and we probably have an opportunity to talk about it more, and I touched on, you know, the Trench campaign that we're about to be having going forward.

In terms of e-commerce, I mentioned earlier, you know, we are strong digitally. We have good capabilities, we have great teams, but I think it's a really important metric to have, and it is a metric, as you know, that other brands share. We won't be sharing it quarterly, but, as I mentioned earlier, annually, we will be coming back and showing you how we're tracking against these goals that we're putting in place.

Zuzanna Pusz, UBS
Excellent. Thank you.

Julian Easthope, VP, Investor Relations
Okay. We'll go to Thomas next as he's near the mic, and then we'll go to the other side as I've been a bit biased towards the left.

Thomas Chauvet, Citi
Thank you. Good morning, Jonathan and Julie. Two questions, the first one, going back to the long-term EBIT margin target of 20%++, whether that means mid-20%s, high-20%s, time will tell, but is that just driven by opex leverage, Julie? Are you saying the gross margin of Burberry will be, in five years, still at 70% to drive that whatever, high 20%s of your margin? I would have thought the rebalancing towards leather goods, accessories, with a much bigger, scalable business there, would help the channel mix changes towards more retail, more e-commerce, deemphasising wholesale would have driven gross margin. As you know well, Jonathan, in the industry, brands that have 30%, or close to 30% EBIT margin have well above 70% gross margin. That's my first question, and should I go with the second?

Julian Easthope, VP, Investor Relations
Yeah, go for the second.

Thomas Chauvet, Citi
Okay. And on the second is the capital allocation framework. Obviously, as Julie is leaving, there have been a few management changes at Burberry, do you feel that the capital allocation framework should change between organic investments, dividends, buybacks, potential for acquisition, particularly is £400m the new normal perhaps for share buybacks at Burberry compared to the £150m you used to do?

And then acquisitions, do you feel you have a lot on your plate in the next three to five years on Burberry, that Burberry doesn't need to utilise that cash, perhaps, to complement its portfolio with another brand and no longer be a monobrand company. We've seen, obviously, in the industry, a lot of monobrand companies acquiring businesses in the last few years? Thank you.

Jonathan Akeroyd, Chief Executive Officer
Okay. Do you want to start on the margin?

Julie Brown, Chief Operating & Financial Officer
Yeah, I'll start on the margin. So, I think, initially, we believe 70% is the target. The reason for this is the pressure we're receiving through logistics, freight and as inflation also works its way through to raw materials and the supply chain. So, clearly, we have got an opportunity to drive further efficiencies in cost of goods, and with our supply chain head, we're definitely going to be able to do that.

The product, as you say, the more we move towards the leather range – initially, as you know, we invested in the leather goods capability and we didn't move the prices commensurately, so, initially, you know, that was a headwind to the gross margin. We've now, sort of, stabilised that, leather prices have moved upwards, so we've got a good range of gross margins now within the product categories, they're broadly in line.

I think there is an opportunity going forwards, certainly. As we move on this journey, there's probably further opportunity with price, we would say, as we go through. And, as you say, as leather increases as a proportion, that could drive further efficiencies in the supply chain and further gross margin improvement. But at this stage, because of the inflationary headwinds we're facing, we prefer to leave it at the 70%, that's the targeting, of around 70%, but could we do more over time, over a longer period of time? I think of course we could, yes.

Jonathan Akeroyd, Chief Executive Officer
Yeah, and in terms of the capital, the model that Julie and the teams have put in place, I think it works very well for us. You know, obviously, my callouts, potentially, would be do we need more capex to increase the store refurbishments? I think our timeline is about right. We actually probably couldn't do any more, we couldn't do it at a faster pace, so I'm comfortable with that.

Our marketing spend, we all agree, it makes sense to step it up for the next two years, but, again, that's in line with our peers. So, you know, I'm personally comfortable with that, so I think that's in pretty good shape as well.

On the M&A side, you know, got a lot to do. I'm eight months in, we've been really working hard on this new strategy, you know, working on the teams with it, and think that that's very much going to be the focus of us for the coming year is all I can say.

Thomas Chauvet, Citi
And on the buyback, Julie perhaps or Jonathan?

Julie Brown, Chief Operating & Financial Officer
Yeah. I think in terms of the priorities we've got are, first of all, organic growth in the business, organic investment in the business. The second one is, of course, the progressive dividend policy. The third one is, you know, we do have occasional inorganic investments. You saw us buying out the China interest, we also did the acquisition of Burberry Manifattura to build verticalisation and capabilities in leather – a critical important enabler for the business. You may see us doing smaller amounts there in terms of vertical capability, vertical integration of capability.

And then, of course, the balance is, effectively, we would use share buybacks or special dividends because the cash generation of the business, as you know, our cash conversion typically is in the 80%, 90% range. We would anticipate it being very strong.

So, as long as we feel we can fund all the things I mentioned above, we would probably engage in further share buybacks, so I think that is going to be a choice as we move forward with the strategy, but I think the capital allocation framework puts us in a good position to do that, and the priority number one is the business.

Julian Easthope, VP, Investor Relations
In that case, we'll go to Carole and Kathryn. That'll be great, thanks.

Carole Madjo, Barclays
Hi. Good morning. I have just one or two questions on the brand image. Coming back to one of your slides, you mentioned that 70% of consumers now see the brand as true luxury. Can you come back on that explain a bit more what drove this improvement? Was it the outlet reduction, the expansion towards leather goods, anything in particular?

And then, going forwards, how shall we think about the drivers as well for the future? I don't think you have mentioned pricing that much in the presentation, but you do expect, still, further the brand elevation, and so higher pricing points in the future to still drive this improvement in the brand perception?

And I guess just one follow-up on that, also on the store network, I think you're focusing a lot on the store conversion but how about the location of your stores? Are you happy with where they are in, I don't know, a mall or whatever, are you happy with the locations and do you feel like this is good enough to be really true luxury as you intend to be? Thanks.

Jonathan Akeroyd, Chief Executive Officer
So, in terms of, I think, the perception of the elevation strategy, I would actually, and we haven't mentioned him today, but I would credit Riccardo for helping get this journey in place. As I mentioned earlier, four years ago, I was very much looking at and impressed with the work that Burberry had done in terms of elevating the brand and really positioning it in terms of luxury positioning. So, I think it was very well done and, clearly, it's been recognised.

I may have mentioned this before, but, you know, I recall three years ago being in China and just seeing, you know, Burberry's positioning, where it was and its adjacency, and I think people now, very clearly, see the brand as being a luxury brand, which is fantastic.

In terms of pricing, you know, I believe we're still on the elevation journey. You know, as our customers, and we have had a very strong growth and a very strong focus through our retail teams on driving a high level of elite customers to our stores. And, as you know, elite customers that spend over certain thresholds are really important to luxury brands, and we've been growing that base, really importantly, and that the spending power there is strong and we're able to retain them more and, kind of, work with them in a very dynamic way.

I think it's important with a brand like Burberry that we have – and this has also been a trend with other brands – where we have a very good mix of product. I mentioned earlier about, well, I call them traffic builders, so traffic builders that people can come into the stores, you know, and buy the small leather goods, the phone cases, etc, to bring them in and then we can convert them up. But, at the same time – and our leather goods has been the best example here – we've been able to raise our leather goods pricing. A few years ago, we were tactical about it as we were coming into that category, we kept our positioning fairly competitive, I would say, and in the last 18 months, we've been able to rise our leather goods prices with no resistance.

And I do think, you know, when you think about shoes, leather goods, bringing in more desirability, you know, I believe this will give us also an opportunity to continue to develop and manage our price positioning in the right way there, but making sure that you've got a balance it. For me, it's all about making sure you have that balance, and I really believe about, the next phase that we're going into, we will be able to cover that. We'll be able to cover a higher level of price positioning in places like leather goods, especially in shoes. Our shoe business, right now, is mainly sneaker-focused. So, as we go into the formal shoe area, the outdoor boot area, this will mean a lift in prices there. So, a good opportunity there.

In terms of the store network, since we last met, I've visited many of our stores, and I have to say I've been very impressed by our positioning, and we have to hold those positionings because they are, you know, in Los Angeles, Rodeo Drive, for example, New York, 57th Street, and then going on to, I mentioned Korea, for me, Korea was the big callout. Everybody knows that this is, you know, a very strong market for Luxury. We've had incredible growth in Korea, and our positioning there is second to none. So, I've been really pleased with it.

So, we will, in some areas, more in probably Southeast Asia, we will look, and this is what we have been doing to date, why we haven't been able to give you too many of the results of the new store concepts because a lot of them have actually been because we've been relocating in some malls or going to a different mall, a better mall, which has also, sort of, helped this elevation journey.

So, you know, I would say, overall, the satisfaction is there. When we see an opportunity to go into a – Shanghai's the best example. In Shanghai, we were in another location and to go into Plaza 66, that is the best. I mean, I'm sure many of you know it, and we have this incredible space in Plaza 66 in Shanghai, and that's a clear brand upgrade and in line with the elevation strategy.

Julian Easthope, VP, Investor Relations
Thank you. Okay, Kathryn, and then Piral, yeah.

Kathryn Parker, Jefferies
Thank you for taking my questions. So, my first question is just on the path to the £4bn in sales. I understand that space growth will be largely flat, but could you talk about how you expect the mix of price mix and volumes to contribute?

And then my second question is just on personnel changes, and I wondered if you had any other key hires to call out, perhaps in the marketing team or in the country teams, and if there's any gaps in personnel that you're still looking to fill or replace? Thank you.

Jonathan Akeroyd, Chief Executive Officer
So, Julie will take the path to the £4bn.

Julie Brown, Chief Operating & Financial Officer
Yeah. So, in terms of the £4bn, we see it being a combination of the two. First of all, as Jonathan mentioned, the price is an important part of the brand elevation, and we've seen, actually, AUR as being a big contributing to the underlying full price growth of our business to date, and we envisage continuing on that journey. The only reason you haven't seen it coming through in the absolute sales numbers reported is because we took the markdown out of the business, which was over a £200m business to Burberry previously. So, that was a significant headwind. That's gone now, as Jonathan mentioned, he's glad that that's behind the company.

So, I think a combination of price and volume, and it's not like-for-like price. What we've been doing, and will continue to do is, as the product elevates, as the quality of the leather changes, as the design changes, that's what commands the higher price point. So, it's really a change in the product that drives it.

Jonathan Akeroyd, Chief Executive Officer
In terms of the personnel, I mean, I touched on it in terms of the retail side, been very impressed with the teams there. The other callout for me is that, obviously, the key to this is having strong regional retail leadership, and we have some really strong leaders in our retail networks, some of them, if you think of just calling out, forgive me for not saying it, but think of our teams in China that are incredible, very passionate about the brand but, you know, they can't leave China to get to connect with us. I've not met my lead president in China, so she's doing a fantastic job in very challenging circumstances, really, really, managing the teams in an incredible way, so this is important.

And, for me, the great thing is that we have the network, we have the people, when we continue to evolve – nothing here is broken by any means, you know, we have an incredible platform – when we continue to build on that, and improving it, these guys are ready. So, it's very encouraging, and certainly the motivation for the teams and the focus is already there, so, it's very pleasing.

Julian Easthope, VP, Investor Relations
Okay, I'm going to go to Piral, then I'm going to go to Anne-Laure who's had a good workout today by putting her arm up and down so many times.

Piral Dadhania, RBC
All right, thank you, Julian. Two questions and a follow-up, please. If we could just talk about handbags and leather goods, obviously, a lot of work's been done in recent years to improve the offer, and you aim to add more layers on top of that. Could you maybe just talk about lifecycle management? You know, in years gone by, we've certainly seen Burberry come to market with a lot of newness in the leather goods category, but what's perhaps been not executed as well is the lifecycle management of those handbag platforms. So, Jonathan, what would do differently to capitalise on that?

My second question's on the UK VAT refund disadvantage. So, obviously, the UK Government keeps changing its decision around whether to allow consumers to get a refund on their purchases. What actions have been taken as traffic is predominately going into Continental Europe for luxury travellers to ensure you capture the right share of wallet there?

And then the third question is a follow-up, just on store size. Could you perhaps tell us what the optimal store size you see as being appropriate for the next concept for Burberry? Thank you.

Jonathan Akeroyd, Chief Executive Officer
Do you want to take VAT?

Julie Brown, Chief Operating & Financial Officer
Yeah, do you want me to do that?

Jonathan Akeroyd, Chief Executive Officer
I'll do that. So, thank you. On the leather goods, I mean, again, just to repeat that, you know, this a journey that really started four years ago, so I think, in that, it was probably a little bit of test and learn, but now I believe that it's actually stabilised. I mean, we've called out quite a bit today about, you know, our Lola group and our Lola family, big successes on that this year – we had a big marketing push on that that was successful, and you see our Frances bag here which is part of our TB line, so it is quite consistent.

Always, in any leather goods business, people want to see refreshment. I think it's really important to make sure that the families that you have are relatively stable. Some of them now, you know, as we've had that test and learn process, they have been evolved, but, you know, our leather goods business is actually quite well-managed and I think, you know, it needs to evolve but in an organic way without, obviously, damaging the margins. And as we build onto that, you know, I'm quite confident that we will create stronger icons that will have a higher level of lifecycle. So, that's the objective there.

In term of the optimum store size, I do have a number in mind, and I don't think I'll share it, but, you know, it really depends on where those locations are. I think it's great, you know, London's a key city for us, we need to have flagships this, is this our home market. And in the summer of next year, we'll be opening our new Bond Street store, which will be fantastic.

But, as we go into some of those areas that I mentioned before, maybe some of the cities, possibly more in America, you know, there is an opportunity for us to make sure we've got the right sized store that we can manage in the right way. But, generally speaking, flagships we need, they need to be bigger, they need to make statements, but when you go into, again, I mentioned Asia, you know, you probably only need 300 to 400 square metres for stores like that, and this is really where we are at the moment.

Julie Brown, Chief Operating & Financial Officer
Okay, so I'll take the VAT Retail Export Scheme. So, this was a very, very big enabler for attracting tourists to the UK, no question. And, just in terms of providing you with a little bit of context around this we have seen a return of tourism, not like it was before COVID, but we've definitely seen a return of tourism.

So, US tourists, for example, because of exchange rates, have been coming into Europe more so. We've seen a 76% increase in Europe versus pre-pandemic levels, but, in the UK, it's 41%, so a definite differential. And similarly with Middle Eastern customers, again, versus pre-pandemic, 105% in Europe but 51% in the UK. So, we're seeing a definite difference in the move of people towards Continental Europe, which is really, really disappointing.

So, what we'd like to see is, you know, to work with the Government. VAT RES has been removed, but we'd like to work on an incentive scheme that encourages tourists back to the UK because it really helps with not just luxury fashion shopping but also other industries like hospitality. So, we're very committed to working with the Government to ensure that we can do that.

And in terms of the second part of your question, we are attracting those tourists who previously did come through to the UK, they are now going more so to Paris and Milan. Obviously, through our CRM database, we can see this happening. And, therefore, stores being attractive, the branding that Jonathan's mentioned, the product line, these are big attractors to the Burberry Line, and people are moving at the moment more towards Paris and Milan than here, regrettably. We've like to change that.

Julian Easthope, VP, Investor Relations
And the final question from Anne-Laure, thank you.

Anne-Laure Bismuth, HSBC
Hi. I have two questions, please. The first one is a follow-up on the question from Antoine earlier about this target of £4bn sales in the mid-term. Given that you have provided this target to convert all the stores to a new concept by end Full Year '26, does that mean that that target of reaching £4bn sales is achievable in Full Year '26? Or another way to ask that question is that the £4bn target is where the consensus is in 2028? If consensus decides to move this £4bn sales target in 2026, would you consider consensus to be too optimistic?

And my second question is about price increases. What is your plan for the second part of the year? Will it be possible to know the kind of magnitude that you plan to increase to prices and if you are planning to increase prices in Europe given the price gap between Europe and the US? Thank you very much.

Julie Brown, Chief Operating & Financial Officer
Yes, so in terms of the £4bn, we're anticipating this being over a 3 to 5-year period. It's based on a Full Year '22 base, and it's quoted at constant exchange rates.

I mean, in terms of consensus, as you know, I think consensus will move as the business improves, and I think, just because we had the markdown coming out the business, that was a drag on revenue, and, therefore, I think it will take a little bit of time before consensus moves.

We're not going to go for a specific date. The reason for that is not about our confidence in the business and about the future of the business and what Burberry's capable of, absolutely not, because we're very confident. It's really all about acknowledging the macro situation that we're dealing with and, in particular, you've seen the volatility caused by the COVID disruption in China, you know, going from 1% in Q1 to 11% in Q2. It's a very difficult world, and the major determinant of that change was actually due to China swinging so much between one quarter and the other.

So, that’s caused us to say three to five-year time horizon rather than, you know, a certain date in time. We would though expect consensus to move over time, definitely. And then price?

Jonathan Akeroyd, Chief Executive Officer
Yeah, in terms of prices, you know, we're managing them on a regular basis. We track, we have great models in place where we can track where we are regionally. As we mentioned earlier, we're, kind of, you know, raising them mid-single-digits where we need to be, but it's really something that's organic. Seasonal business, four times a year, we really go through a complete overhaul. But, as I mentioned earlier, I think we've been fairly happy with the way that we've been managing our price increases today.

Anne-Laure Bismuth, HSBC
Thank you very much.

Jonathan Akeroyd, Chief Executive Officer
Thank you.

Julian Easthope, VP, Investor Relations
I think we've actually run out of time now.

Jonathan Akeroyd, Chief Executive Officer
We'll take one more.

Julian Easthope, VP, Investor Relations
Okay, we'll take one more question, sorry.

Charmaine Yap, Redburn
Thank you for that. I have two questions, please. First one, in terms of brand positioning, Jonathan, do you feel that there's still a discrepancy between the regions? Historically, US is a little bit weaker. And also relating to that, the pressure on entry price points in the US, do you think that's a market factor or is there a little bit on brand specific issues?

But also, in terms of the second question, with regard to your commitment to operating margins, because of the volatility in macro, for example, if sales were to slow temporarily before accelerating, are you still happy to commit your level investments and, you know, suffer maybe short-term temporary margin pressure before recovering again? Thank you.

Jonathan Akeroyd, Chief Executive Officer
Yeah, in terms of the brand positioning, it's a very good point. I think great work has been done, you know. I think the perception of Burberry now as a stronger luxury brand, our

positioning, wherever you are globally, is, more or less, exactly where it needs to be. So, I'm happy with that.

I think one of the callouts here, which we have mentioned, is, you know, if you look at the image of the brand, in terms of the store concepts are very modern, they're in line with where we're going, where we need to be, and we've done a lot more of those in the East versus the West. So, you know, we believe that, as we go into next year, at the end of this financial year, we're going to be about 35% fully refurbished, continue accelerating on that – obviously, a lot of that will come from Europe and America – and I think this will help the brand perception.

But certainly, you know, as Julie mentioned earlier, we've seen a big upgrade in our ticket price sales in the US, for example, and, actually, the shift and mix of our business in the US, ready-to-wear versus accessories, is quite nicely weighted towards the accessories actually. So, already people are seeing us as a leather goods business there.

You know, and then, when you go into Asia, for example, it's a slightly different perception because people see us as this, you know, iconic ready-to-wear offer and, you know, that's where we've probably got more work to be done in terms of really pushing and marketing, you know, the new offer that's coming through that they're very excited about through the new accessories offer.

So, you know, I'm pretty happy. There's little kind of quirks in each region, and this will mean – I touched on it earlier in terms of the buys – I do see an opportunity for us to have, and we will have now, you know, much stronger consistency of what you're seeing in our stores here will be – you need to make regional adjustments, for sure, but making sure that, you know, what we're promoting, what we're talking about, will be consistent and congruent across all of the regions and markets.

Julie Brown, Chief Operating & Financial Officer
Okay, yeah. So, in terms of if sales were to slow and then there's an acceleration, and the impact on margins, I mean, our assumption is that, clearly, we've experienced, in this first half, considerable disruption in China. Our assumption is, next year, that this eases and that there is a relaxation of the mass testing, etc, and the stores being closed. So, that is our fundamental assumption.

With that assumption in mind, we can accommodate the increases in expenditure. The store refurbishment programme rolling out, the extra depreciation, together with the marketing increase, as we've done this year already, we can accommodate that within the aspiration of a 20% margin in Full Year '24.

If sales go into reverse, or if you're dealing with a very difficult macro situation, then I think I would refer to what we did during COVID. I mean, during COVID, we had a very difficult situation on our hands, our sales declined high-single-digits, but we were actually able to hold the margin. We kept the investment in the commercial frontline, but we took some additional cost in terms of enabling or support areas in the business, and actually managed the margin through that very, very turbulent period.

So, if the worst comes to the worst, I think we would have a solution, and we would be able to manage the business as we did during COVID, but, at this point in time, given our assumptions, given the macro as it stands at the moment, we can do the investment and protect the margin.

Julian Easthope, VP, Investor Relations
Okay. Well, I apologise to those people I didn't get round to, but I am around for the rest of the day with Lauren and Rhian, so if you fire your questions across, I'm more than happy to take them, but I'll leave it over to Jonathan to finish off.

Jonathan Akeroyd, Chief Executive Officer
Well, thank you very much, everybody. I hope you've enjoyed it. It's been great, and I'm sure I'll see of you after the presentation. Julie's not leaving yet, so she's still with us. She's been an incredible partner for me as well but thank you very much and thanks for your support.