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Joshua Schulman, Chief Executive Officer

Good morning, and welcome to our interim results and strategy presentation. I'm Josh Schulman, and I am delighted to be here as CEO of Burberry. This is a business I have followed and admired for more than 25 years. And with me is Kate Ferry, our Chief Financial Officer.

In terms of our agenda for today, I will start with a few words about the business and our opportunity ahead. I will hand over to Kate to take you through our first half performance, and then I will update you on Burberry Forward, our strategic plan to reignite brand desire, improve our performance, and drive long-term value creation.

Burberry is an extraordinary luxury brand. Quintessentially British, equal parts heritage and innovation, with a unique creative and commercial alchemy at its core. Burberry's original purpose, to design clothing to protect people from the weather, is more relevant than ever. And I am excited and optimistic about our future.

Since joining the company in July, I've spent time meeting our talented people across functions and geographies, collaborating with our design, merchandising, and marketing teams, and visiting our stores on three continents, from Sloane Street to Shanghai to Soho. And I've been connecting with our customers.

Only last week, I visited our historic factory in Castleford, in Yorkshire, where I learned how our skilled craftsmen and women cut the gabardine we weave into our iconic Burberry heritage trench coats. Each of these interactions have formed a baseline view of where Burberry is today and what we need to do differently moving forward. The feedback is unbelievably consistent. We have the most opportunity where we have the most authenticity.

As you will have seen from today's announcement, our current business trend remains very challenging. We are operating in a difficult market. However, our underperformance is also a consequence of decisions we have taken. And it stems from an inconsistent brand execution and a lack of focus on our core outerwear category and our core customer segments.

We are acting with urgency to course correct. While this is a business with long lead times, I have no doubt that Burberry has all of the attributes to return to sustainable, profitable growth. This is a business that, in recent past, has achieved over three billion pounds in annual sales with a 70% gross margin and an operating margin in the high-teens. We can get there again and we can go beyond. After several months here, I am more confident than ever that Burberry's best days are ahead. And with that, I will now hand it over to Kate to take you through our first half results.

Kate Ferry, Chief Financial Officer

Thank you, Josh. And good morning, everyone. When I last spoke to you in July, I said that the slowdown experienced in Q1 had continued into the second quarter. We're operating in a difficult market, but as Josh just referenced, we've also underperformed as a result of our own challenges.

In Q2, our comparable retail sales were down 20% with total revenue of £1.1 billion in the first half. As signalled in July, we made a loss in the first half. The £41 million adjusted operating loss includes headwinds of £33 million from impairments and £29 million from inventory provisions. Excluding these, adjusted operating profit was £21 million. Free cash outflow was £184 million, largely driven by the operating performance.

I'll now take you through a more detailed review of performance, starting with revenue by channel. I'll refer to changes at constant exchange rates.

Comparable store sales fell 20% in the half with space increasing by 1%, leading to total retail revenue down 19%. Wholesale revenue decreased 29%, impacted by weakening consumer demand, as well as changes we've been making to increase control of distribution in EMEIA. This was slightly below our guidance of 25% down, reflecting the wholesale environment, which remains challenging for the luxury sector. Licensing grew 5%, supported by our continued strength in fragrance. Total revenue was down 20% or 22% on a reported basis.

Turning now to regional performance. In Q2, Asia Pacific fell 28%, driven by Mainland China down 27%. Globally, the Chinese customer group declined low-double digits, but continued to outperform Mainland China.
South Asia Pacific down 37%, and South Korea down 26%, performed broadly in line with the previous quarter. Japan turned negative, down 9%, still benefiting from strong tourism, but to a lesser extent than the prior year.

Both EMEIA and Americas improved in Q2 as compared to the previous quarter. The EMEIA region fell 13% in the half, with Q2 down 10%. Tourists accounted for just over half of retail sales, declining by a mid-single digit percentage. The Americas declined 21% in the first half, with Q2 down 18%. Globally, the Americas customer group performed slightly better than the region in the half.

Moving on to the income statement. There are a couple of areas that I haven't yet touched on. Gross margin was 63.4%, down 640 basis points compared to last year. I'll come onto this in more detail in just a moment.

Net operating expenses were 1% lower at constant exchange rates. This was driven by cost control alongside a reduction in variable costs. We delivered £8 million in structural savings from our organisational efficiency programme initiated during the period. There was a £12 million cost in adjusting items associated with this programme.

The net finance charge was £27 million, primarily due to interest on lease liabilities of £25 million. The adjusted effective tax rate was 5%.

Gross margin saw a significant decline year on year. And whilst we expected a continued decline from product costs, we also increased our stock provision and we took action to address our inflated inventory levels in the half.

And to help you quantify these three moving parts. Our increased cost of product construction was not fully offset by pricing and drove a headwind of around 200 basis points. Stock provisioning was a headwind of around 250 basis points given we planned inventory to a higher sales level. We're also taking actions to reverse the inventory build-up impacting gross margin by around 190 basis points in the first half. We'll accelerate these initiatives through the second half as we reset the business for growth.

As you know, our business is typically very cash generative and we're confident that our plans will reestablish that strength as they gain traction. However, reflecting the current operating performance, we experienced a free cash outflow of £184 million in the half. Our working capital outflow was £123 million driven by inventory build-up due to lower sell through and seasonal effects.

Capital expenditure was £87 million with around £50 million on the store network. We paid the dividend for FY24 of £152 million. However, as announced in July, we have suspended our dividend payment for FY25 in order to maintain a strong balance sheet and enable investment in Burberry's long-term growth.

We strengthened our long-term capital structure in June with the issue of a new £300 million bond. Therefore, we closed the period with net debt of £278 million or 1.4 billion after adding £1.1 billion of lease liabilities. At the end of the period, net debt to adjusted EBITDA was 2.4 times. We expect our leverage to be slightly higher at the year end and whilst temporarily elevated, we remain comfortable with our liquidity and our headroom over this challenging period. We're focused on returning leverage to a more normalised level organically through the near-term actions we're taking to rebuild profitability.

Turning now to full-year outlook, with our all-important festive trading period ahead and an uncertain macro environment, it is too early to call whether our second-half results will fully offset the first-half operating loss.

To help you with modelling, in FY25, we expect no changes to our guidance of retail space remaining broadly flat and capital expenditure at around 150 million pounds. We now expect wholesale revenue to decline by about 35% in FY25, with the lowered full-year guidance reflecting a weaker-than-expected first-half performance. Finally, we expect currency to be a headwind of around £70 million on revenue and around £20 million on operating profit, all based on the 25th of October spot rates. Further detail can be found in the appendix of this morning's statement.

We are acting with urgency to stabilise the business and position Burberry for a return to sustainable, profitable growth, supported by cash generation and balance sheet strength. We're taking immediate action across the following key areas.

First, we are reducing our inventory levels through swift one-time actions. These will accelerate into the second half, resulting in gross margin in half two being lower than the first half. We're also focusing on a tighter buy going forward, and together, these initiatives will result in at least flat gross inventory year-on-year and bring scarcity back to our inventory model.

Second, we're reducing OPEX. We're currently undertaking a significant reassessment of our cost base. This year, we'll deliver around £25 million in savings, which annualise at around £40 million from FY26.

There will be a corresponding £20 million cost recorded as an adjusting item this year. This is the first step in a wider cost programme, which we'll update on in due course. Importantly, whilst we are focusing on tight cost control, we will continue to protect consumer-facing spend with a focus on rebuilding sustainable profitability.

Third, we are taking a disciplined approach to CAPEX allocation. We've invested significantly over the past few years in our store network, and Burberry Forward will be very focused on driving improved productivity. In the near-term, we will balance selective investment with maintaining cash, ensuring a laser focus on return on investment.

And finally, balance sheet resilience will remain a priority. We have confidence in our liquidity and headroom. As I mentioned a moment ago, our business has been very cash-generative in the recent past, and we're confident that our plans will organically re-establish that strength as they gain traction.

I'll now hand back to Josh to talk about how Burberry Forward will enable sustainable value creation in future years.

Joshua Schulman, Chief Executive Officer

Thank you, Kate. As highlighted, we are clearly starting from a very challenging position. I believe, though, that we have what it takes to reverse this trend and return to being a high-performing luxury brand.

When I look at the history of value creation at Burberry, it's clear there was a creative and commercial alchemy, a blend of magic and logic. At its best, the consumer value proposition was clear and distinct: British heritage juxtaposed with innovation. Outerwear was at the core, and there was this culture of pioneering innovation throughout the company. Burberry continues to have many of these strengths, but in the last couple of years, we moved too far from our core DNA and lost our focus.

Although history doesn't repeat itself, our goal is to create an echo, an echo of the way customers once felt about the brand, an echo in what we do and how we do it, in a way that is uniquely suited for today's luxury customers. We know today's luxury customers have more choice than ever. We also know that they value authenticity in the brands that they wear. Our consumer research dovetails with my intuition that we have the most opportunity where we have the most authenticity.

We can only chart our path forward with an objective analysis of where we wandered off too far. In our pivot to a modern British luxury aesthetic, we over-indexed on modern at the exclusion of our heritage in our brand expression. We created new brand codes, including variations, signifiers, and wordmarks that were not familiar or recognisable to our customers. We prioritised inventory and marketing investments around seasonal fashion moments at the expense of our core categories, resulting in diminished visibility of our core outerwear. And we took pricing too high across the board, particularly on leather goods, where we lacked natural category authority.

These changes were designed to appeal to a fashion-forward customer. And although this audience can be very influential, the narrowness of our target confused a large and important cross-section of our core customers. Clearly, we can't resolve all of these factors overnight, but I am absolutely confident that they are fixable. We are facing these challenges head-on and acting with great urgency to course correct.

We will do so by leaning in to our original purpose and values. Burberry is the only luxury brand founded on the principle that clothing should protect people from the weather. The heart of our brand is warmth, protection, innovation, and exploration. This has never been more relevant than today.

In fact, Burberry shares all of the attributes that best-in-class luxury brands have, and Burberry is the only British brand to have them.
An original purpose linked to product that still resonates today.
An inspirational founder who created practical and stylish solutions for their era.
Savoir-faire in a core category.
Brand codes that allow us to extend beyond our core category.
Consistency and quality that bestows status and identity.
Cultural relevance and the spirit of our country of origin.
A brand expression that balances heritage and innovation.
And high-performing luxury brands are sizable businesses with broad universal appeal.

In fact, the top four luxury brands in the world all have these attributes, and each one has a broad range of products and price points to attract a broad audience. Each one has a different formula of how they accomplish their commercial objectives. We have been most successful when we have celebrated our universal appeal and turned that broad brand awareness into desire.

Burberry exists in culture and creativity. Our original purpose is linked to product, and we are blessed that our original product is outerwear, which is relevant to a wide range of luxury consumers.

We are going to put the customer back at the heart of what we do. Luxury customers of all ages crave legitimacy, authenticity, and enduring quality. In this context, Burberry is more relevant than ever. Over the past several years, the world went where Burberry has always been, while we went somewhere else. To reclaim this lost ground, we will love the customer we have as much as the customer we want to have.

As a luxury brand with broad universal appeal, it is paramount that we speak to different customer archetypes. To give you an idea of how we are thinking about our customers internally, here is an overview of some segmentation analysis we conducted to inform our work.

On the left is the opinionated customer that we focused on in recent years. This customer is the most sophisticated and fashion-forward. The good news is that we attracted more of this segment. However, the opinionated is one of the smaller pools of customers, and not big enough alone to sustain a multi-billion-pound business.

We want to keep the opinionated customer, but high-performing brands also appeal to the investor, who is high-spending and craves quality and craftsmanship. The conservative, who spends less and may be quieter than the investor. The hedonist, who appreciates brands and seeks a high degree of branding. And the aspiring, lower spending, but still an important audience for any large luxury brand. We have highlighted the investor and the hedonist because they inspire the conservative and the aspiring. So we are giving focus to attracting and retaining them. Ultimately, our ambition is to bring all of these luxury customer archetypes into our house.

For nearly 170 years, Burberry has always been about moving forward. In fact, our Equestrian Knight logo includes the words Prorsum on the flag. Prorsum is Latin for forward. Thus, Burberry Forward is our plan, our strategic plan to reignite desire, restore growth, and get Burberry back on the path to sustainable value creation. With the customer at the centre of everything we do, we are now pivoting to timeless British luxury. And we will juxtapose heritage and innovation across all our touch points.

We will lead with outerwear and earn our authority in other categories, aligning our pricing with our category authority as we rebalance our offer. We will align our distribution with our product and customer strategies and focus on driving prominence, productivity, and profitability across our stores, online, and our wholesale points of sale. And we will reignite a high-performing culture to fuel this journey.

Starting with brand. Our goal is to balance heritage and innovation so they coexist in the same timeless vernacular. We are going to be incredibly disciplined with our brand codes, heroing our iconic check and aligning our other signifiers across consumer touch points.

We will celebrate Britain and being British in a way that is universally understood by featuring a mix of London landmarks and British countryside in our imagery. And we will have culturally relevant faces and storytelling that are recognisable to our customers worldwide. In our campaigns and activations, we will evolve from focusing only on our seasonal fashion message to creating balance with our institutional outerwear authority.

This is already underway with our It's Always Burberry Weather campaign, which went live last month. In addition, we will celebrate our Britishness through specific collaborations such as our wonderful partnership with Highgrove, the much-loved private residence of His Majesty the King and Her Majesty the Queen, for which we have developed a collection of trench coats and scarves.

To illustrate the shift we are making, on the left, you see some examples of the modern British luxury expression in the past year. What you see on the right is our evolution to a more recognisable and timeless expression of Burberry.

For those of you who may not have seen it, here is a reel from the It's Always Burberry Weather campaign. This is by far our most important 360-degree activation of the year and it is our most significant Outerwear marketing in some time. We couldn't me more excited about the immediate uplift and change in brand sentiment that this campaign is bringing. And we are already seeing an impact on our outerwear and scarf performance trend.

Building on this energy, just yesterday we dropped our Wrapped in Burberry festive campaign. On the left side of this slide is our festive expression last year. And on the right is Wrapped in Burberry, bringing back warmth and a uniquely warm and recognisable Burberry spirit to our holiday communications. I invite all of you to visit our flagships to see this in person and immerse yourselves in the experience.

Turning to product, as I mentioned a moment ago, and as our consumer research supports, it should come no surprise that we have the most opportunity where we have the most authenticity. Even during this challenging period of the last couple of years, our outerwear and scarf categories continued to outperform the rest of our offer.

Going forward, our focus is leaning into our strengths and leaning into outerwear while heroing scarves, which are a Burberry superpower. Ready-to-wear is a natural adjacency. We've had strength in this category in the past, and this is something we are going to develop to complement our core. Leather goods and shoes remain important for completing our customer's wardrobe, but we are going to earn our authority in these categories. And childrenswear is actually a special category at Burberry, and it's one that we have tended to treat separately from the rest of the business. This is going to change. We have real authority here, particularly with our most affluent customer segment. We are going to build on this, increasing the visibility of the category in our storytelling online and in our stores to regain share.

For our core outerwear category, our immediate priority is to reassert our authority as the ultimate trench and rainwear destination. Secondly, we will extend our legitimacy in quilts, downs, puffers, wool, and cashmere coats. And we will introduce new innovations, bringing technical performance attributes to a range of silhouettes to inspire and excite our customers. After all, Burberry's gabardine is the original performance material.

In softs, we are going to reclaim our leadership of the luxury scarf market. As part of this, we will increase the visibility of scarves in our communications. We will also be rolling out scarf bars in our stores, building on the success of our prototype in the recently reopened 57th Street store in New York. We will use the broader soft category for cross-selling and to drive traffic. Capes are a natural adjacency for Burberry, the ultimate soft accessory that our customers need to protect themselves from the weather and that have a higher AUR and luxury positioning.

In terms of pricing, these past few years, we have been very focused at the top of the pyramid, especially in leather goods. Going forward, we will restore a good, better, best price architecture in a luxury context across categories. Importantly, we will align our price architecture with our category authority.

That means we have more pricing power in outerwear than we have in leather goods. In outerwear, we will stretch higher from our core with cashmere, leather, suede, and special edition products at pinnacle price points. Our best sellers at our 57th Street opening in New York last month included beautiful leather trenches at around $9,000 which shows the opportunity we have here.

At the same time, we will protect our openings and core prices in the good and better price sectors. We are resetting our pricing in access categories like men's polo shirts to ensure a strong entry offer, moving the opening price points back to a level we were at 18 to 24 months ago.

In leather goods, our focus will be on branded key shapes and most of the assortment will be under 2,000 Euro. Again, this is where we have had strong success in the past and where we were about 18 to 24 months ago.

To be clear, this is not about a move to an accessible luxury positioning. This is about restoring a price architecture that we had when we were doing three billion pounds of revenue with a mid-teens margin. We're going to bring the balance of our pricing architecture back and do so within a luxury context.

Our runway will continue to play an important role in building loyalty among our highest spending customers and driving our overall brand image. Clearly, we over-invested in the runway collection for Winter 23, but we have been right-sizing that investment ever since. In our most recent Summer 2025 fashion show, Daniel brought innovation to our most important codes, our trench and our check. Going forward, we will continue to harness the power of the fashion show to celebrate our brand codes in new and innovative ways, building brand desire.

As we reset, the goal is to have fewer, bigger ideas that last longer. For runway and seasonal items, we will bring scarcity back to our model and create demand. For carryover and core product, we will reduce the duplication in our assortments and we will use data to underpin the optimum assortment and SKU count.

Moving on to distribution, overall, we have a strong global store network with prominent locations. Our focus now is marrying the prominence with driving productivity and profitability.

In our retail stores, we will lead with outerwear and increase the density of product on the shop floor. We have already made changes to visual merchandising, emphasising cross-category merchandising and adding scarves, capes and trenches in the front of the store. We are targeting CAPEX for investment and amplification of our most iconic categories. I have already mentioned that we will be rolling out scarf bars in calendar 2025. We will also be creating trench destinations to hero our best known styles.

In wholesale, we will sharpen our presence, exiting non-strategic accounts that do not align with our brand. At the same time, our core luxury department store and e-commerce partners in the US and our travel retail partners globally are eager for Burberry to come back bigger and better than ever as we have historically been a core resource for them. In the last few months, I've met with most of our largest partners in America and Europe, and they see a void in the market that Burberry can uniquely fill. We are working closely with them to unlock this opportunity and to restore our position as one of their leading luxury brands.

While our focus will continue to be on our full price business, we will optimise our outlet channel. We have an opportunity to drive higher AURs in outlet, and we will rebalance our penetration over time as we liquidate our inventory overhang and drive improvements in the full price network. During this fiscal year, we have already closed two of our outlet locations.

In e-commerce, we are taking action to drive a step change in performance. We are rebalancing our product assortment to make it more commercially relevant, and we are bringing innovation back to our digital presence, starting with our virtual scarf try-on that we have fast-tracked to launch in time for festive. And we are updating our styling to appeal to a wide spectrum of luxury consumers. While we continue to improve our functionality to create an inspiring and customer-friendly online shopping experience.

Our goals are only achievable by reigniting our high-performance culture. I am especially focused on re-establishing the link between design, merchandising, and marketing to rekindle our creative and commercial alchemy. For the last few years, however, design had become siloed in the organisation. And since joining, I've made it a priority to bring design back closer to the commercial anchors of the business.

We have built a forum enabling Daniel, myself, and our merchandising and marketing leaders to align earlier on product and marketing decisions that impact our global business. We have already changed our go-to-market model, including aligning on the marketing styles in advance of the buy to allow our regions and wholesale customers to focus their investments and allowing our supply chain to accelerate deliveries of advertised styles.

Across the organisation, we are focused on strengthening our ways of working. This starts with ensuring everyone is clear on where we are going and their role in getting us there.

Linked to this is rebuilding our executional discipline, driving accountability, and ensuring we have consistent, consistent metrics and mechanisms to measure our progress. We will ensure we have the right capabilities for data-driven decision-making at scale to create value.

We have also strengthened our leadership team. In September, Jonathan Kiman joined us as Chief Marketing Officer, and Laura Dubin-Wander joined us as president of our Americas businesses. I am extremely pleased that we have been able to attract both of them to Burberry, and both have hit the ground running, and we are already seeing the impact of their leadership and interaction with the rest of our Executive Committee. And just last week, we announced the appointment of Paul Price as Chief Product Merchandising and Planning Officer. Paul, of course, was a key member of the Burberry leadership team during the company's peak era of value

creation, and he was responsible for product strategies that led to consistent double-digit growth. I am thrilled to bring him back in an expanded role to unleash Burberry's creative and commercial alchemy in service of today's luxury customer. I know our entire team will enjoy working with him.
As we rebuild our business, we will continue to uphold our commitments to social and environmental responsibility. This is a key element of our DNA and is important to customers across the luxury spectrum.

In summary, we are moving at pace to execute our strategy. Kate has discussed our near-term actions to stabilise the business. In the mid-term, we will outperform the sector on the top line as we rebuild gross margin, expand operating margin, and deliver strong free cash flow generation.

Our challenges are clear, but I know Burberry's best days are ahead. For nearly 170 years, Burberry has embraced innovation and exploration. Like the core product that our business is built on, our brand has been resilient and enduring in all kinds of weather.

We are confident we can get back to generating three billion pounds of revenue over time while building high-teens operating margins and driving strong cash generation. We have all of the ingredients, all of the attributes to get there and go beyond. Together, we will power this next chapter of this beautiful brand and move Burberry forward.

With that, I will hand it over to Lauren and Kate and I would be pleased to take your questions. Thank you.

Question and Answer Session

Lauren Wu Leng, Head of Investor Relations
Great, thank you, Josh. So we're going to start the Q&A now. I see a few hands raised already. We will bring microphones over to you.

Please state your name and where you're from in terms of your firm as well, please. I can see Antoine straight in front of me, so let's go to Antoine first, thank you.

Antoine Belge, BNP Paribas
Yeah, hi, good morning.

It's Antoine Belge at BNP Paribas. Usually I ask three questions, but I know that Lauren prefers two. So first of all, there were a couple of mention of Daniel Lee during the presentation, but I felt there was a bit less emphasis on him.

So is it just because, as you said, you want the design function to be a bit less siloed and so less focused maybe on an individual, or does it mean that he was maybe a fit for the previous strategy, but a bit less for the new one?

And the second question is around this motto, which I understand is not new, but coming back to maybe what the company was known for, which is to protect people from the weather. And I think you mentioned a void, according to your, wholesale partners.

Can you elaborate a bit on this notion of a void or an empty space, because when it comes to protect me from the weather, maybe I think of Moncler if I want to have a bit of a design or fashion look, and if I want a bit more performance, where there's quite a several performance brand that springs to mind.

Joshua Schulman, Chief Executive Officer

Okay, two great questions. So first, on Daniel, Daniel is a very talented designer. And what I noticed when I arrived at Burberry is that the design function was relatively independent, and that it was much more siloed than it is in better performing luxury businesses.

And so an immediate priority for me was to bring the teams together, and particularly to bring the merchandising voice, to bring the voice of the customer together into the design studio in a regular holistic way, and also to bring a closer relationship with marketing. And I've been really pleased with the way the teams are working together, and everyone's focused on the same outcome. Everyone wants to win. Daniel doesn't work alone. He also has a terrific team of many designers behind him, and I think that the teams are energised to work together in a more holistic manner, all with the same goals.

In terms of your second question about reasserting our authority in outerwear, we've been around a lot longer than some of those competitors that you mentioned, and we also have permission to take this original purpose and our outerwear core and build on it.

And the conversations that I've had with the top CEOs of department stores, with our landlords around the world, is they know they have a customer who loves Burberry, but we haven't been showing up as the best Burberry can do. And they know this customer wants Burberry back, and that we offer something unique in the marketplace. And so they're excited by what we've told them, and the small things we've shown them in terms of the change of marketing and so forth, and they're excited to have a Burberry back for their customers.

Lauren Wu Leng, Head of Investor Relations

Great, let's go to Grace next.

Grace Smalley, Morgan Stanley

Thank you, Grace Smalley from Morgan Stanley. My first question would just be on the store fleet, given the strategy you've outlined today and seemingly the shift more to outerwear and scarves. What does that mean for the potential size of your stores and any changes you envision there?

And then my second question would just be on product mix. Anything you can give in terms of how you see the percentage mix of your product mix between outerwear, scarves, handbags, shoes, evolving over time.

And on handbags, given it has been a big strategic growth focus over the last several years, and there was much less focus on it in today's presentation, what do you see as the strategy going forward within leather goods? Thank you.

Joshua Schulman, Chief Executive Officer

Three great questions and somewhat related. So, in terms of the store fleet, as I said, we are broadly happy with our store network. We have terrific locations around the world, and the company has invested a lot to keep them updated. So I inherit a good network. There may be a few changes here and there of some that may not be appropriate over time, but I think that's more in the normal course of business.

In terms of the space within the stores, we know we have an opportunity and a need to unlock productivity. So here we're going to be targeting specific CAPEX initiatives around category amplification. And in the past few years, we have a lot less product density on the floor and a lot more open space.

And particularly, we've taken a particular approach with the way we display scarves. It's mostly in a drawer versus an inviting kind of a candy store approach to scarves. So we're going to bring back a new version of the scarf bar and personalisation experience at the front of the store, which creates an energy in the store and something that is distinctly and uniquely Burberry.

Likewise, we're going to create trench destinations that really spotlight this iconic product and offer opportunities for personalisation and customisation and so forth. Today, I won't get into the specific percentage splits by category, but the direction of travel over time is going to focus more on outerwear.

To be clear, we have a right to play in all of those categories that I mentioned, including leather goods, which brings me to your third question.

We actually have sold leather goods for many years as part of our mix. In our recent past, we had a handbag-led elevation strategy, which was focused on handbags at pinnacle pricing and mostly without recognisable signifiers. Broadly speaking, that strategy didn't work. We know that where we sell handbags is in this zone around 1,500 to 2,000 Euros with recognisably Burberry signifiers and I think you started to see some of that, some of a hint of that in Daniel's last show. We're really resetting that category for Autumn 25, which we will show to our regions and our wholesale customers in a few weeks. We will continue to have the category, it just won't be where we lead.

Lauren Wu Leng, Head of Investor Relations
Let's go to Zuzanna and then Aurelie, and then Louise, I just saw you there, thank you.

Zuzanna Pusz, UBS
Thank you so much. Zuzanna Pusz from UBS. First of all, congratulations on the strategy. It's nice to see the brand going back to its core. I'll stick to two questions.

The first one is maybe broader on trying to understand the drivers behind your ambition to return to the high-teens EBIT margin. I'm just trying to understand the various moving parts, and I appreciate it's probably very tough still at this stage. But I mean, you mentioned 70% gross margin roughly. The productivity has always been the issue of Burberry, and even when you used to display scarves in the stores many years ago. So I'm just trying to understand, it's going take some time probably to return to the three billion revenue target. In the meantime, you do have inflation. You've been cutting costs for the past seven, eight years, so I'm not sure, and eventually, if you do come back to three billion in revenue, you do need to have the cost base that you had at that level as well. So somehow I had expected maybe you would try to optimise the store network. So I'm just trying to get my head around how we model it, what exactly we should expect, especially on the gross margin front.

And secondly, somewhat related to that is the question around outlets. It's also nice to see that you plan to optimise that. But any specific changes strategically to how you operate your outlets, my understanding is that majority of your sales and outlets come from products actually made for outlet, which I guess somewhat also dilutes the idea of even selling the trench coats because you can get the outlet store as well.

So maybe if you could tell us a little bit more about the changes, you're going to make to your strategy within the outlets. Thank you.

Joshua Schulman, Chief Executive Officer

Okay, why don't I let you start with the gross margin and then I can pick up on outlet?

Kate Ferry, Chief Financial Officer
Yeah, so I guess if we kind of shape, as you rightly say, getting back to first of all, the 3 billion, the 70%, the high-teens margin, which to be fair, we were there in the not so distant past. Clearly, top line is going to be the key performance driver and I think a lot of the strategy today has focused around what we're doing around product and marketing and distribution.

And you're absolutely right, productivity in all of that will be key. But I think as Josh outlined, this really is about heroing our strengths and focussing on where we can really make good returns. I think on the gross margin, what you can see this year are quite a lot of additional one-off impacts on the gross margin. And I think what we're really trying to do is to come into next year with a really solid platform that we can build on. So clearly, we've taken a big inventory provision, we are exiting in a kind of swiftly, reasonably one-time way.

We are exiting a more problematic inventory, and we hope to end up broadly flat if not down year-on-year. So then you can imagine the gross margin, we're going to get a kind of good rebuild from there.

I think on cost, you know, you make some good points. Of course, Burberry has had cost programmes in the past. You can see that we already, and I think we talked to you about the cost programme that we already had in June. That's delivered 8 million in the half. That will deliver another 17 million in the second half, and 40 million next year. That's very much to do with kind of streamlining head office. You can imagine that we are now going to be looking across the piece. So we've kicked off a more comprehensive cost reduction programme. We'll update you in due course. I'm not going to commit to numbers in a timeline today, but clearly, that will be the third very important part towards rebuilding our operating margin.

So I think, you know, the way I look at it, it's momentum in the top line coming back. Clearly, you can see how the gross margin will rebuild from low levels this year and continued focus on cost.

Joshua Schulman, Chief Executive Officer

So I'll pick up on the outlet piece. You know, clearly our focus is primarily on our full price business. However, we will optimise outlet. We do know that there is an opportunity in our outlet stores for higher AUR product, and that is something we are working with the teams to meet that demand, and we're going to rebalance the penetration over time. It's really about restoring scarcity to the model. Obviously, right now, we have a significant inventory overhang, and so having those outlets to manage through that inventory overhang is important in a time like this.

Zuzanna Pusz, UBS
Thank you. May I just follow up on gross margin? So what would you say is sort of the clean gross margin you are seeing in the business currently? Just so we get an idea, is 70% the point where you can get to in the mid-term, or is this actually going to be a bit sooner?

Kate Ferry, Chief Financial Officer

I think 70% is the mid-term ambition. So clearly, you can see where we are today. As at the half, I've indicated that we are going to accelerate this inventory exit in the second half, and therefore, that gets you to, obviously, a second half margin lower than where we are today. That, I would see as a good base from which we will build back to the 70%.

Aurelie Husson-Dumoutier, HSBC

Thank you. Aurelie Husson-Dumoutier from HSBC. I have two questions as well.

The first one is, beside the change of strategy, in which area in particular you feel that your past experiences will help you to be more successful than your two predecessors as Burberry CEO? That's my first question.

And the second one is, I would say, the ultimate goal in EBIT margin. High-teens is kind of a first step. You said it could go beyond. If I think about one outerwear company, luxury outerwear company, Moncler, which is 30%, around 30% EBIT margin, is there anything in the Burberry business model that could prevent you to go to this kind of level?

Joshua Schulman, Chief Executive Officer

So, I'll start with our ambition. As I said at the beginning, three billion pounds of revenue and a high EBIT margin as a benchmark. We believe that this brand has potential to go far beyond that. We're not putting that in our mid-term plans today because we have a lot of work to do, as you can see by our current financial performance. But as I said, after a few months here, I am more optimistic than ever that Burberry has all of the attributes to be one of the best in class here. Our starting point is from a very challenging place, so, that's why we've put that out because we know that in the recent past, we were at three billion with a high-teens margin.

Moving to my experience, I have a lot of admiration for all of the CEOs of Burberry that have come before me. And I think each one has left a different mark on the company. My background is as a merchant and working alongside designers. In fact, early in my career, I worked with a young designer named Christopher Bailey at Gucci, where I was the Worldwide Director of Women's Ready-to-Wear. And he was the Design Director of Women's Ready-to-Wear. So, we worked quite closely.

And then he went off to a place called Burberry. And I watched from afar what was built here. And so, that's the core of where I started. But I've worked in different types of businesses. And I would say one of them, when I was at Neiman Marcus Group over the Bergdorf Goodman and MyTheresa businesses, I was able to have a different view from not being in a brand, but from being a proxy for the customer and understanding different business models. And I would say that that was very helpful for me, of understanding the way a customer makes choices between different businesses and different brands and what it takes to excel in a very crowded universe.

Aurelie Husson-Dumoutier, HSBC

Thank you. If I may just add one thing, you just mentioned Christopher Bailey. Could we see him coming back to the brand for a special collab or as a guest star for one season?

Joshua Schulman, Chief Executive Officer

I think Christopher is a friend of the house, but I don't imagine that anytime soon.

Aurelie Husson-Dumoutier, HSBC

Okay, thank you.

Louise Singlehurst, Goldman Sachs

Hi, good morning. It's Louise Singlehurst from Goldman Sachs. If I could take a couple of questions too, please.

Firstly, I wondered, Josh, if you could talk about how you envisage the success of outerwear and particularly the trench to really drive the customer purchase across the whole silhouette. I think you dropped into the commentary with regards to polo shirts at the base level, but there's obviously a big range between the entry and the high end. And given the low growth environment we're in for the industry, clearly, we've got to see some market share. So I'd be interested to see where you see most opportunity to grab market share for Burberry in the turnaround phase.

And then secondly, given your US expertise and global background, I wondered if you could share with us your early observations on the Burberry brand. Obviously a very global, well-recognised brand, but it does have different meanings historically to different customers around the globe. And I'd love to hear your observations of where that sits today.

Joshua Schulman, Chief Executive Officer

Thank you. Yeah, absolutely.

In terms of the silhouette and building from outerwear, like I said in my presentation, I do believe that we are blessed with outerwear as our core because outerwear does several things. First, there's a practical dimension to outerwear. And in today's world, people need more outerwear for different types of weather. And as the weather is changing, they need different types of outerwear for the different seasons. And so that is an opportunity for us.

We also believe that outerwear can serve as an anchor to the wardrobe. And I think that this is one differentiator that we have from some of our competitors that only have outerwear because it actually is a benefit to us that we have ready-to-wear, we have accessories, we have shoes and so we can really build that entire wardrobe.

And what's important is anchoring those products in the style and brand codes because the customer is attracted to brands and understanding how those brand codes allow us to travel from our outerwear core to other categories. And I think that was one of the challenges we've had in these past few years that some of the products that we wanted to sell to our outerwear customers lacked either the brand codes or the spirit of the functionality that our outerwear is known for. So I don't know if that helps you.

Louise Singlehurst, Goldman Sachs

I wondered if you could share with us more about the competitive environment if you like. Obviously, you've got to take market share over the rebuild phase in a low-growth environment. It's a wide range for us to understand the entry through to the high end and where you see most opportunity to take share from your seat today.

Joshua Schulman, Chief Executive Officer

Yeah, I don't want to name specific competitors, but clearly within outerwear, we are the leader in rainwear. I specifically called out quilts, downs, puffers, performance outerwear. These are areas where we can earn legitimacy because of the adjacency to rainwear quite easily. And in a world where people need more outerwear for more different weather occasions, these should be easy additional purchases for us to pick up.

We also have an opportunity in wardrobing, in ready-to-wear, in accessories. And I think an important point is harnessing the power of the fashion show, frankly, and I think you started to see that a little bit more in this most recent fashion show of how that presents a halo and a context for the rest of the branded offer.

Louise Singlehurst, Goldman Sachs

Your views on the U.S. positioning versus the global positioning of Burberry?

Joshua Schulman, Chief Executive Officer

Yeah, so I've spent time in the last few months in Europe, in Asia, and in the U.S. Clearly, the brand has invested in Asia quite a bit and we have a very strong presence in Asia. In North America, it's been a little quieter. I think that the commitment that the management made before my arrival to reinvest in 57th Street is an important symbol.

And I don't know if you saw the type of event that we did to launch that, but there's a lot of focus on America and I was thrilled to attract Laura Dubin-Wander, who is passionate about the brand and passionate about the people in the business and very passionate about her customers. And she's working closely with merchandising and design and marketing to make sure she's getting what she needs to drive the business.

Lauren Wu Leng, Head of Investor Relations

Thomas, and then we'll go to Rog. Thank you.

Thomas Chauvet, Citi

Good morning, Thomas Chauvet from Citi. My first question on the good, better, best segmentation strategy, how do you think you're going to create clarity in the consumer going through the gigantic Regent St store, for instance, where there's going to be a lot of products with different price points? I saw this morning in your media interview, you said you were not planning to reintroduce the three labels, Prorsum, London, and Brit.

You mentioned Prorsum in your introduction. Just thinking about why is that? Is it because that segmentation is more suited to wholesale and you're deemphasising wholesale?

That's the first question, sorry. The second question on manufacturing, with your rebalancing towards outerwear and scarves, I suppose you need to ensure extreme product quality if you want to lead on pricing to establish that pricing authority. What's the level of vertical integration you have today in both categories?

Is there a plan to increase that share? I know you've started doing exchanges and investment in your supply chain at the end of last year. And just quickly on the cost savings of 40 million annualised, is that all structural?

And you mentioned this morning, Chinese consumers will eventually come back. If that was slower than expected, is there some specific cost initiative you can do in China with regards to rents or the store footprint? Thank you.

Joshua Schulman, Chief Executive Officer

Okay, so that's a lot of questions. I'll start off with the brand segmentation. The former segmented strategy of Prorsum, London, Brit was appropriate for a certain era. It's no longer appropriate for today's luxury consumer. I believe that strategy was really built in a time of a lot of wholesale, which is not the way the customer shops today. And we're now in an omni-channel era and that model is frankly much less relevant.

I also want to underline what I was saying earlier that all of our products will have a luxury positioning. It's just a question of which categories where we can stretch the highest within a luxury context. So to reiterate it, we are not pursuing an accessible luxury strategy in any way.

And so none of these products will be at accessible luxury or cacophonous to the luxury positioning that we have overall. In terms of our manufacturing capability and particularly around our heritage outerwear and our scarves, as I mentioned just last week, I was in our Mill in Yorkshire together with our manufacturing facility there. And this was an amazing experience to be with the craftsmen who make the product and to also see where our gabardine is made, is woven. And this is an important part of our brand. I don't think that we have talked about this much in the last few years. Most of our storytelling has been around fashion and our seasonal fashion show will continue to be important. However, we also have a true authentic story to tell about the way our heritage raincoats are made, the way our scarves were made. We have a history of over 170 years. And you've started to see little bits and pieces of storytelling around this in the last few months. But as I said in my remarks, we have the most opportunity where we have the most authenticity and we're going to lean in here.

Do you want to take OPEX?

Kate Ferry, Chief Financial Officer

So the cost question. So you're right, the 40 million, it is all structural. And I think, as I said earlier, it's predominantly to do with streamlining the head office. So I think now what we're moving into is, if you like kind of looking at all costs, that as you can imagine is globally. So a wider cost initiative. And I think looking specifically at China, as I think you're probably aware, we do have more variable cost in China. So I think to an extent we are slightly more protected there than in the West, but obviously by undertaking a wider cost initiative, that is inherently going to give us some protection from the macro. But as you can imagine, we model all scenarios and clearly run the business to a downside scenario.

Lauren Wu Leng, Head of Investor Relations

Rog, and then we'll go to Carole.

Rogerio Fujimori, Stifel

Thank you, this is Rogerio Fujimori from Stifel.

I have one question about product mix and the other about outwear drivers. So Burberry has been historically 60% ready to wear, 40% accessories, more or less half of ready to wear outerwear, more or less half of accessories being bags, given the push into outerwear and the, let's say the time and cost to earn credibility in bags in a crowded category. Do you see that mix changing three to five years in terms of the business being perhaps more ready to wear than today?

And the second question on outerwear, I understand today that I think there is the aim and the opportunity to stretch the price points higher on one hand, and then you aim to reclaim market share with a stronger offer. So how volume and price mix should kind of balance in terms of contribution to growth?

Is it more price mix led or more volume led growth for outerwear in the next three years? Thank you.

Joshua Schulman, Chief Executive Officer

Yeah, in terms of the second question, clearly, we've lost momentum in these past few years. And so we have opportunity, we need to catch up the volumes and then add the pricing opportunity on top of that. But we need to grow our volumes back to where they were as they were to get to that baseline. And yes, there probably is a little bit of pricing opportunity in outerwear on top of that.

In terms of the product mix, broadly speaking, you will see, as I said, a focus on outerwear, a focus on scarves. Those exist within the broader ready-to-wear and accessory buckets.

So there may be a realignment within those buckets of perhaps a bit less ready-to-wear within the mix, perhaps a bit less classification ready-to-wear within the ready-to-wear bucket where we grow outerwear and perhaps a bit less penetration of bags in the accessory category. But we're starting from a low base right now. So we need growth across the board because we have the opportunity to get back to that three billion level, which will require us to grow across the board.

Carole Madjo, Barclays

Hi, good morning. Carole Madjo from Barclays. Two questions for me as well, please.

The first one, maybe to come back on your brand analysis. So as you mentioned, you went across several cities, countries, and of course you went to China as well. Can you come back on the brand perception that the Chinese consumer have today on the brand?

We heard some pushback about maybe too much promotion activities affecting the desirability of the brand. So how do you think the Chinese perceive the brand's recovery today? And do you see, of course, any path to recovery in the upcoming quarters? And that's the first question.

And the second question, back towards H2. So as you mentioned, the biggest data is, of course, top line growth. So can you give a bit of more colour on current trading to help us maybe have a better view on how to forecast top line growth and on what you see as of now? Thank you.

Joshua Schulman, Chief Executive Officer

So I'll start with China. It's very clear that the Chinese market in general is challenged with issues much larger than Burberry that are macro issues. That said, the customer there, there is a pent-up demand for the Burberry that people know and love.

And we're seeing this sentiment shift happen globally now with some of the new campaign imagery and the messaging. And our team there is excited. However, they're doing this in a very, very tough environment.

Medium term, longer term, we have huge confidence in the Chinese market and in the resilience of the Chinese customer. We know that there can be cyclical issues. But we continue to invest there. And we are optimistic in the medium term.

Kate Ferry, Chief Financial Officer

And I think just to take your current trading question, I'm sure you're not going to expect me to necessarily comment on current trading at this stage. But what I will say, you can see in our Q2 results that we've seen some improvement both in the US and EMEIA.

And actually, the impact of some of the actions that we've already taken are certainly having a noticeable effect. So just even mentioning, it's Always Burberry Weather. Certainly, we have seen some inflection in outerwear and in scarves.

So we have seen some impact there. But I think as per the outlook statement, we've obviously got festive ahead. The macro is still uncertain. So I think I probably won't be drawn any further than that on current trading.

Lauren Wu Leng, Head of Investor Relations

Great. All right, that concludes our Q&A session. I'm going to hand back to Josh for closing remarks. Thank you.

Joshua Schulman, Chief Executive Officer

Thank you, Lauren.

After a few months in this business, I'm more confident than ever that Burberry's best days are ahead. We have strong foundations. We have a powerful brand.

And there is a hugely talented team behind Kate and myself. Burberry has always been about moving forward. We will continue to inspire and excite our customers.

And we will continue to do that to drive sustainable, profitable growth and long-term value creation. Thank you, everyone, for joining us today. And we look forward to sharing our story as we move Burberry forward.

Thank you.