BURBERRY

Burberry Group plc
Q3 FY25 Trading Update
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Questions from

Thomas Chauvet, Citi
Grace Smalley, Morgan Stanley
Aurelie Husson-Dumoutier, HSBC
Zuzanna Pusz, UBS
Antoine Belge, BNP Paribas
Chiara Battistini, J.P. Morgan
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Kate Ferry, Chief Financial Officer

Good morning. I am Kate Ferry, CFO of Burberry and with me today are Josh Schulman, our CEO, and Lauren Wu Leng, Head of Investor Relations.

As you will have seen, we published our Q3 trading update this morning. There are slides to accompany this call on our corporate website and a transcript will also be made available later today.

In terms of our running order, I'll go through our performance in the third quarter and then Josh and I will be happy to take your questions.

As you will recall, in November, we launched Burberry Forward, our strategic plan to reignite brand desire, improve our performance and drive long-term value.

Our focus in this next phase is on reconnecting the brand with its original purpose, leveraging our strengths with a disciplined approach and offering a range of products to attract a broad base of luxury customers.

In the third quarter, we moved at pace to stabilise the business and position Burberry for sustainable, profitable growth.

While comparable store sales were down 4% versus last year, we saw a sequential improvement in all regions as compared with the second quarter.

We have taken swift action in the quarter to address our inventory levels through enhanced end of season activity, and this modestly benefitted our Q3 comparable sales by a low single-digit percentage.

During the period, we initiated our brand reset with our "It's Always Burberry Weather" outerwear campaign and "Wrapped in Burberry" festive campaign.

We aligned our product focus around recognisable brand signifiers, core categories and good/better/best pricing in a luxury context.

We evolved visual merchandising in store to increase focus on outerwear and scarves. We also introduced new styling online.

Though we are still very early on our journey, these actions generated an improvement in brand health, strengthen in our core categories and stronger conversion.

Moving onto the quarter's retail performance on slide 3.

As mentioned, comparable store sales fell 4% in the quarter. The contribution from space was 1%, leading to 3% lower retail sales at constant exchange rates. Currency was a 4% headwind in this quarter, with retail revenue landing at £659m, down 7% at reported exchange rates.

Turning now to regional performance.

Asia Pacific was down 9%, with Mainland China down 7%. Globally, the Chinese customer group was flat versus last year, continuing to outperform Mainland China. Chinese spending abroad was mostly in Japan, South Asia Pacific and Continental Europe.

Japan grew 4% in the quarter, boosted by tourism spend from Chinese customers.
South Asia Pacific was down 19% and South Korea down 12%, an improvement on Q2.

EMEIA was 2% lower than last year, with a similar decline in both locals and tourists. The EMEIA customer group was flat year-on-year driven by an improvement in Continental Europeans shopping globally.

Americas were up 4%, boosted by local spend. We were particularly encouraged by performance in the New York area where we concentrated local marketing efforts after reopening our refurbished 57th St store. Globally, the Americas customer group was in line with the regional performance.

In the quarter, we launched our “It’s Always Burberry Weather” outerwear campaign and “Wrapped in Burberry” festive campaign.

Both campaigns were rooted in warmth and authenticity and centred on outerwear and scarves, driving positive sentiment, with brand desirability at its highest level in three years.

While this business has long lead times, we have already taken action to align our product around recognisable brand signifiers, core categories and our new pricing architecture.

Our biggest focus has been to hero outerwear and scarves. The acceleration of our core categories reinforces our belief that Burberry has the most opportunity where we have the most authenticity.

During the quarter, we ran a 360-degree programme on scarves with increased visibility in our communications, enhanced in-store visual merchandising, and digital innovation with the virtual scarf try on capability. This led to our scarves growing by a low-teens percentage versus last year, with Google searches for ‘Burberry scarf’ the strongest in three years.

Our cashmere Heritage Check scarves continue to be our most desired, with broad appeal among luxury customers. But we’ve also seen strong demand for new animations such as the Gallant Knight, and the Tri Bar Check. The Tri Bar has been one of our best sellers since South Korean actress Jun Ji-hyun was pictured wearing it.

Our softs category is a great example of good/better/best pricing in a luxury context. We have experienced strength across price points, ranging from our giant Check scarf at £420 in good, to reversible EKD cashmere scarves at £690 in better and the £2,490 capes in best. These capes were sold out by November, demonstrating our ability to stretch our pricing architecture in categories where we have authority.

We have outperformed when the product celebrates the brand signifiers and emotional attributes Burberry is known for. Across categories and the price spectrum, we have seen an uplift in our Check product performance, particularly in soft accessories, leather goods and knitwear, following greater prominence of this key brand signifier in our Festive storytelling.

Our outerwear category continues to outperform, growing a low-single digit percentage in the quarter. We saw a meaningful acceleration in quilts and downs, an area we are extending our outerwear legitimacy in.

For the Festive period, we transformed our stores into festive wonderlands, contrasting with the minimalist approach from the prior year. We enhanced visual merchandising in stores with the reintroduction of mannequins and cross category styling.

Turning to full year outlook. As previously communicated, we are acting with urgency to stabilise the business and position the brand for a return to sustainable, profitable growth, supported by cash generation and balance sheet strength. We are confident that our strategic plan will improve our performance and drive long-term value creation.

While we recognise we are still early in our transformation, we are encouraged by the response from customers and partners over the festive period. In light of our Q3 performance, it is now more likely that our second-half results will broadly offset the first-half adjusted operating loss, notwithstanding the uncertain macroeconomic environment.

To help you with modelling, in FY25, we expect no changes to our guidance of retail space remaining broadly stable, wholesale revenue to decline by around 35%, and capital expenditure of around £150m.

There are also no changes to our guidance of around £25m cost savings to be delivered in FY25, with a corresponding restructuring charge of around £20m in FY25.

Finally, we expect currency to be a headwind of around £65m on revenue and around £25m on operating profit, based on the 3rd of January spot rates.

Further detail can be found in the appendix to this morning's statement.

And with that, we will now be happy to take your questions.

Q&A

Operator
Thank you. If you would like to ask a question, you may do so by pressing star followed by one on your telephone keypad now. If you would like to withdraw your question, please press star followed by two.

When preparing to ask your question, please ensure your phone is unmuted locally. To confirm, that's star followed by one to ask a question. First question comes from Thomas Chauvet with Citi.

Your line is open, please go ahead.

Thomas Chauvet, Citi
Good morning, Kate, Josh and Lauren. Thanks for taking my question. The first one on perhaps just the numbers you've just published.

I was keen to hear what surprised you the most in the period in terms of either industry trends changing, but also obviously the impact of your own initiatives. Where do you think you had easy wins? What was more challenging? I'd be keen to hear you and Josh on that.

Secondly, on tourism, could you give us perhaps the moving parts here? It's very useful to have all the sales by clusters in the release, but could you give us perhaps the share of spend in Europe, in Japan, and maybe in the rest of Asia between locals and tourists, and how it roughly compared to last year? For the Chinese cluster, how much of the spend was onshore versus offshore this quarter?

Finally, on the gross margin, H2 gross margin, I think consensus is around 62%, down 400 bps year on year. Could you come back to the moving parts? Is that mainly the inventory exit, the markdown that continues in Q4 that will drive the bulk of that 400 bps swing on top of probably a bit of FX? I think the product quality investment and the inventory provision will not reoccur in the second half. Thank you.

Kate Ferry, Burberry
Morning, Thomas. Thank you for your questions. So, perhaps I'll chat a little bit about the industry trends and the clusters and the gross margin, and then obviously, as you've heard, Josh is here with me and can add a little bit more colour on how some of our own initiatives are resonating.

So, in terms of regions, I think high level, in terms of macro trends, very much what you have been hearing and reading elsewhere, encouraging signs, certainly in the US, some signs of stabilisation in China. We don't want to get too carried away there yet, but clearly an important market for us. And I would say EMEIA is still a little choppy.

So, if we start with EMEIA, the region you can see is down 2%. Within that, the European cluster is flat. And what we are actually seeing in the region is locals are down, so -2%. And if I was to call out a couple of regions, albeit small in the sales mix, it would probably be the UK and the

Middle East, slightly weaker, and tourists are down 2%. And in terms of the cluster, I think where we're seeing is Europeans travelling to Asia and the US.

China, you can see Mainland China down 7%. The cluster is flat, and you can see it in the Japan numbers, certainly travel continuing into Japan, a little bit into Europe as well.

Americas, as you know, that's kind of normal that you would see the region and the cluster broadly the same. So, they're both at +4%.

And Japan, I suppose that's the kind of the missing piece of the jigsaw. So, +4% is the region, the cluster obviously down therefore double digit. I mean, the locals, you can back that out and see that locals must be very weak.

On SAP and South Korea, you can see the region, South Korea -12%. This tends to be more of a locals market. So, the cluster, broadly the same, but I will call out both South Korea and SAP, whilst they're still both down double digit, we have seen sequential improvements. So, both of those, an improvement compared to the second quarter.

Why don't I take the gross margin, and then we can talk a little bit about our own initiatives, because clearly I think what you're seeing in the numbers today, yes, some help from the macro, but I think we're certainly feeling encouraged by initial reaction to the initiatives that we outlined in November, particularly marketing and visual merchandising where we've really been able to have an early impact. But I'll hand over to Josh in a moment, for a bit more colour there.

Just on the gross margin, I talked about further gross margin weakness in the second half as compared to the first half. And we're not changing that guidance today. What you saw in the first half, significant margin weakness there, which was driven by, you know, some of it was obviously product costs, some of it was provisions, and some of it was really around exiting inventory.

Second half, just as I said would happen at the time, Q3, we have had some markdown activity, which was absolutely part of the plan to clear excess inventory. That's very much on track. So we are still expecting gross inventory to be at least flat by March 25.

As I say, I think the strategy played out as we thought it would. It was a bit broader, a little bit more kind of visible online activity, but it was a very disciplined three week period. We pretty much completed it by December.

As per my comments just now, the impact on the Q3 comp was low single digit percentage, and all very much in line with plan. And I think, as I say, the key here was that we were broadly done by December. And, we had a good performance in December driven by full price sales.

So, as I say, there is still Q4 to come, as is very normal in our cycle. We would now look to move typically some of that aged inventory or the out of season inventory into the outlet.

So I'm still calling gross margin weakness as we clear through that and come into next fiscal year in a cleaner position with regards to our inventory.

So Josh, shall I hand over to you to talk a little bit about how our initiatives are resonating.

Joshua Schulman, Burberry
Yeah, of course, Kate. Good morning, Thomas. You know, as we said in November, my initial diagnosis was that we had a brand expression that was unfamiliar to our customers and that we hadn't focused sufficiently on our core categories or our core customer segments across the luxury spectrum.

And so our efforts were really to address those issues. And so I'm incredibly proud of our teams for delivering a timeless British luxury brand expression that resonated broadly with our luxury consumers and product messaging that was warm and authentic and focused on our key outerwear and scarf categories. The acceleration of these four categories, you know, we were up in the low-teens in scarves and had positive growth in outerwear.

It reinforces all of our belief that we have the most opportunity, Burberry has the most opportunity where it has the most authenticity. And what's interesting is that we saw new customer growth for the first time on a global basis in two years in the month of December, in the important festive month.

We also saw on our brand trackers a significant improvement in brand desirability, which is the metric that links to purchase intent. So, I am delighted with these results and these are all encouraging proof points.

It's still early in our transformation, though. The key is really to deliver messages that reinforce these themes, but surprise and delight, turn these new customers into repeat customers and delivering across product, brand and distribution to return to a high performing level. This brand has all of the parts to do that.

And I am more confident in our future, even if we know we have a lot of work to do ahead.

Thomas Chauvet, Citi
Thank you and best of luck.

Joshua Schulman, Burberry
Thank you, Thomas.

Operator
Our next question comes from Grace Smalley with Morgan Stanley. Your line is open. Please go ahead.

Grace Smalley, Morgan Stanley
Hi, good morning. Thank you for taking my questions. My first one would be, it seems so far in terms of the company specific initiatives you've had, they've mostly been around marketing and visual merchandising and putting a greater emphasis on outerwear and scarves.

From here, as you look ahead, could you just remind us on the work you're doing on new product and your new product pricing architecture and what the timeline we should expect for some of your new product that's beginning to arrive in the stores?

And then my second question would just be on profitability. Clearly, near term, you've raised the outlook for this year. I think if we go back to the initial strategy presentation back in November, you made it very clear that over time, you see no reason why Burberry couldn't return to the high teens operating margin you were at very recently. I appreciate, obviously, it's still very, very early, but any colour you could give on how we should be thinking about the margin building blocks and the speed at which you could recapture some of that margin you have lost recently and, I guess, how you're thinking about balancing that recapture opportunity with investing in the business. Thank you very much.

Kate Ferry, Burberry
Great, yeah, good morning. So, I suppose, you know, high level in terms of trends, you're absolutely right that we call that today particular strength in scarves. I think it was a moment ago, growth there was low teens.

Also, we saw positive growth in outerwear as well. So, really playing to our core strengths and very much, part of the focus in the marketing campaign. So, we're really pleased with the performance there and I'll hand over to Josh in a moment to talk a little bit through the kind of changes that you might expect to see in product moving forward.

I would just flag, though, that obviously, festive is quite a unique quarter. We were really able to play to our core strengths. Clearly, scarves are a good gifting piece, so there's still certainly a lot to do elsewhere.

In terms of profitability and outlook, yes today what we're saying is we've got, I suppose, we've slightly softened our outlook to say that we're feeling more confident that we'll cover the first half loss. Obviously, we're pleased with the Q3 performance, but, as I say, Q4 is a very different, very different quarter, still a lot to play for. We've still got Lunar New Year ahead.

I'm still calling gross margin weakness in the second half and, indeed, although we had announced some cost initiatives back in November, clearly these will really help mitigate what we always have, which is inflation on a very high fixed cost base, but, you know, obviously still feeling, still feeling cost pressure. So, I think that talks to this year. I'm probably, you know, it's a trading update today, so not going to get drawn on, next year's expectations.

I think we'll give a bit more colour on that when we meet in May, but you're absolutely right. It was, not long ago that we were £3 billion with much healthier margins and, we're very much seeing signs that we're on that journey here today.

Josh shall I hand it to you for a bit more flavour on what's to come on product.

Joshua Schulman, Burberry
Yeah, absolutely. As you know, when you're in a brand reset, these things don't happen overnight and you're not flipping a switch and each collection builds on the next and so we were really pleased to have a lot of great product that was already in the pipeline and to be able to express that with an evolved brand expression in "It's Always Burberry Weather" and "Wrapped In Burberry" and we were very deliberate with how we did that to emphasise product across the price spectrum, across the good/better/best price spectrum.

And so, the product performed, but even more broadly than that, we were very pleased to see the increase in positive brand sentiment and, in a tough traffic market, improved conversion. At the same time, the teams are already taking those insights and infusing them into the next collections.

And we're testing and learning all the time. So, for instance, one of the initiatives was one of our product initiatives is around aligning our pricing with our category authority. And here, we did some testing and learning by having some uber luxe trenches in leather and suede at the top of the pricing pyramid in our New York 57th Street store for their opening. We were able to fast track those and we saw success at the top of the pyramid there and now that is being rolled out as part of the collections that will ship in May.

At the same time, we saw the growth in our scarf category at good/better/best, including entry price scarves at around £420, all the way up to uber luxe capes at £2,500 and that too has informed our future development of the collections that will be arriving through the rest of this year. So, we're always testing and learning and there are always new products coming and it's not just a light switch, but lots of good stuff and cautious optimism ahead.

Grace Smalley, Morgan Stanley
Great. Very clear. Thank you very much.

Operator
We now turn to Aurelie-Husson-Dumoutier with HSBC. Your line is open. Please go ahead.

Aurelie Husson-Dumoutier, HSBC
Thank you, very much and good morning, everyone. Three questions on my side, please. The first one is on the short term.

Could you give us an idea of the assumption in the retail top line that you have for Q4 that leads you to an operating profit in H2 of around £15m? The second one is about current trading. Could you tell us how did January start?

And also, my third one, is it possible to isolate the performance of full price scarves versus markdowns that you had in Q3? Thank you very much.

Kate Ferry, Burberry
Morning, Aurelie. I mean, I guess no surprise, I'm probably not going to give you our Q4 forecast. However, you know, I'm just going to probably reiterate some of the comments that I've made around how you might think about Q3 as compared to Q4.

So, look, we are pleased with the Q3 outturn. But as I said earlier, this festive quarter is certainly unique. And as I've just said, we were really able to play on some of our core strengths, particularly scarves.

Now, I think moving forward, it's really about working on consistency across the product and brand and really delivering what the customer wants across the piece. And that becomes much more relevant, of course, once you move past the festive quarter, you know, exactly some of the areas that Josh has just highlighted. So, I think, and in the end, look, we're still -4% on -4% so, there's a lot to do to continue momentum.

In terms of your question really around current trading and potential exit rates, which again, I'm not going to comment on current trading. But look, yes, we did see improved performance throughout the quarter. But again, the caveat there is I'm just mindful of all the various festive events within the quarter. We did have things like Thanksgiving a bit later. December's always a strong gifting month, but clearly Lunar New Year coming a little bit earlier.

And on that, obviously, all to play for as in the current quarter with regards to Lunar New Year. So, I think a lot of moving parts, but just to reiterate the idea of not calling victory yet. We're certainly not sitting here and feeling, overly or if you like too confident, there's a lot to do still.

So, I think the moving parts, therefore, moving down to the guidance, is encouraged by Q3. The rest of the guidance, as I said to Thomas remains the same, I would expect gross margin, weakness, we're still feeling the cost pressures that everybody else is. And I think the outlook statement is a very accurate portrayal of what we hope to achieve, which is hopefully, we will mitigate that first half loss.

And I think that would be, an encouraging first step to recovery. And in terms of the full price performance, that was encouraging. And I think particularly, as I've kind of alluded to with the markdown strategy, it was a really disciplined period, largely done by December.

We had a good performance in December, that was driven by full price sales. And as per some of the earlier comments, clearly, scarves are strongest performer, you know, we don't markdown scarves. So, I think on the actual markdown piece itself, as in my opening comments, it was actually, not particularly significant. It's a low single digit percentage benefit to the comp that you saw to that -4%.

Aurelie Husson-Dumoutier, HSBC
Okay, thank you.

Operator
Our next question comes from Zuzanna Pusz with UBS. Your line is open, please go ahead.

Zuzanna Pusz, UBS
Thank you for taking my questions. Good morning. I have two.

So, first of all, follow up on your like for like, and the comments you mentioned on improved brand momentum. And so, I just wanted to clarify, you mentioned the low single digit drag for markdown. May I just understand if this is on the total like for like, so that means that basically, the implied high single digit decline is your actual full price sales?

Or perhaps you define those two differently? Because basically, you know, we want to understand if this is the, you know, that means that your full price business is down high single digit, or if you basically have different definitions for those, because you do have a substantial outlet business.

And, and secondly, I think there's been some press speculation about potentially Daniel Lee looking to move on and maybe sign with another brand.

So, I'll just be curious if you can maybe make any comments or that. And just generally, if you are committed as a business, or if you actually believe you do need a creative director. Thank you.

Kate Ferry, Burberry
Morning, Zuzanna. Just on that like for like comp piece. Yes, you're absolutely right that we talked about a low single digit benefit from markdown, and you should apply that to the total comp.

So, your assumption there is absolutely right. We're not going to comment on speculation, you know, I don't know if Josh wants to add anything.

Joshua Schulman, Burberry
Yeah, I'm happy to also say we are not going to comment on speculation. And, the role of creativity is super important at Burberry. And, and I have to say that, since I've been here, I have been pleased to work with Daniel and bring him closer to the other creative and commercial anchors in the business.

So we've hired a new Chief Marketing Officer, Jonathan Kiman, and a new Chief Merchandising Officer, Paul Price. And, the three of them are working very well together and benefiting from bringing the design team closer to these functions in the business. And actually, frankly, next week, we will all be in our new Horseferry House headquarters that have just been renovated to facilitate even closer communication and to rekindle that creative and commercial alchemy that Burberry has been famous for.

Zuzanna Pusz, UBS
Thank you. Just to follow up, Kate, sorry. So to reframe my question, does it mean your full price business, so excluding outlets is down high single digits? So basically, because, you know, your like for likes include also outlets, and we apply a low single digit, which refers only to the full price business. So is your full price business down high single digits, or it's a completely different definition? Thank you.

Kate Ferry, Burberry
I mean, we don't break out performance by channel, as you know, Zuzanna. But I think low single digit probably gets you to 2-3%. So I think we always talk in terms of total comp, total comp-4%, and then you add the markdown benefit to that. And that gets you the comp for the quarter.

Zuzanna Pusz, UBS
Just so I can understand, did outlets perform in line with the total like for like?

Kate Ferry, Burberry
As I say, we don't break out performance by channel. But you know, we were really pleased with our full price performance. But as you know, we don't break out performance by channel. We always give a total comp.

Zuzanna Pusz, UBS
Thank you.

Operator
Our next question comes from Antoine Belge with BNP Paribas. Your line is open. Please go ahead.

Antoine Belge, BNP Paribas
Yes. Good morning. It's Antoine at BNP.

Three questions, please. So first of all, I think Josh you mentioned that you've been selling, you know, uber luxe trenches, but also, you know, more entry price products. So in terms of the pure pricing and mix and volume equation, if you could say something about the quarter, but also, you know, going forward, you know, where I should learn the sort of average price of the brand.

Second question is, since the operating profit guidance is, you know, increased, but with the same gross margin assumption. So I guess it's all about operating leverage, specifically on marketing. If we take the fiscal year, March 2025, could you comment maybe on the advertising budget?

First of all, in terms of how it evolves in percentage points compared to sales, but also maybe in absolute value. And finally, in terms of distribution, this year, you know, how is the net amount of stores going to evolve, you know, opening versus closing and, yeah, I don't want to be obsessed by outlets, but yeah, I mean, how is the number of outlets going to change in the current fiscal year, but probably, you know, in the future.

And then also, talking to investors, you think that the message around, you know, wholesale at the strategy presentation, you know, might not have come through very well. So what's your strategy around wholesale? Is it about streamlining or is it, you know, something different? Thank you.

Kate Ferry, Burberry
Morning, Antoine. So I think the first one was on our pricing. So yes, I think in the quarter, our AUR was slightly down, very much in line with plans, again, low single digit percentage. And this is

really about working on our price balance within the good/better/best framework that we talked about and very much aligning price with our category authority.

So perhaps I'll hand over to Josh in a moment to talk through that a little bit more. I think you're, oh, and just on the retail equation whilst I've got the floor, I think, so pricing slightly down, but in terms of traffic, you know, in line with everybody else, we are still seeing negative traffic, but clearly the really positive thing for us, which plays to our initiatives resonating is that conversion was positive across all regions and certainly saw an improvement year on year and also quarter on quarter. So I think that was really encouraging.

So the guidance, yes. So sticking with the same gross margin guidance. On marketing, I think you asked specifically. I think the messaging there is very much the same. So really prioritising investment in consumer facing areas, you know, still spending, it's a high single digit percentage of sales on marketing. In terms of the absolute envelope, that hasn't changed significantly, but it does feel like we've been able to do more with it. So I think that's actually just around, spending in the right areas, focusing on the right areas, as you've seen in the most recent campaign.

So it's much more about how we spend rather than absolute quantum. But I think you should see that as reasonably protected. Distribution, we've talked about 1% benefit from space, which would be broadly probably where we end up the year.

There has been some movement there. As you've seen in the statement, obviously the main one to call would be the opening of 57th Street and outlets - we closed two during the year as we mentioned back in November. So I think nothing particularly new to say on distribution.

So Josh, maybe you wanted to comment perhaps a bit on wholesale strategy and any further comments on pricing strategy.

Joshua Schulman, Burberry
Yeah, just starting with pricing, as Kate said, we were down low single digits and that was broadly in line with what we were anticipating and it's what we're anticipating as we go into this quarter and into next year. And that is fairly deliberate because we knew that we needed to do better in terms of aligning our pricing to our category authority. And yes, that means in certain categories where we have permission, we will be continuing to have uber luxe product there, but it's also making sure that we have the right entry points to the brand. And so we were largely pleased with where that landed for the quarter, particularly since we were doing that with product that had already been designed and hadn't been designed with the new strategy in mind. So more to come there.

And on wholesale, it's really, I would say like a tale of two cities, or in this case, two continents. In Europe, I would say that that market, we continue to consolidate there where we're reducing exposure to points of sale, which may no longer be appropriate for us. And then in North America, we see what I would say medium long-term optimism there as the key partners have been incredibly supportive and excited about Burberry coming back and fulfilling its historic role as one of their most important brands on the floor.

What's interesting for me and what has been a little bit surprising for me is that they see us not only as meeting a consumer need that other brands don't meet, but they also see Burberry as having a competitive advantage as being an independent brand. In a world where many luxury brands are consolidating, they like to have strong, powerful, recognizable luxury brands that are independent as well.

Operator
We now turn to Chiara Battistini with JP Morgan. Your line is open, please go ahead.

Chiara Battistini, J.P. Morgan
Hello, good morning. Thank you so much for taking my questions. I just have a couple of follow-ups, please.

Firstly, on your store network, looking forward, really, how are you assessing the store network and the size of the stores and the locations as well, thinking about the evolution of the product assortment and the evolution of the ASPs as well, thinking about store densities and absorption of fixed costs. So any views on how you're thinking about both the full-price store network and the number and network of outlets as well going forward.

And then a follow-up on the product assortment and notably handbags. You didn't really touch much on handbags and how much newness we're going to see on that side. Is that still a big focus for you? Not so much? Any colour on how you see handbags evolving going forward, please, would also be very helpful. Thank you.

Kate Ferry, Burberry
Yes, hi. Morning, Chiara. I'll take the store piece and then I'll hand over to Josh on the handbags.

So I wouldn't expect significant changes. As you know, on the store network, we're kind of a good way through a store refit program. I think that the key focus, really, for us is on productivity.
So making the footprint that we have much more productive and profitable. All of that would be outlined in the strategy, leading with outerwear and scarves and really building authority in other categories. So I think it's more a story of productivity.

Specifically, you did ask about outlets. As I've already said, we closed a couple in the period. Over time, we will slowly reduce the outlet number of stores, but nothing material to call out.

Joshua Schulman, Burberry
So in terms of the product mix, as you know, our strategy is to lead without outerwear and earn authority in other categories. And among those categories are handbags. In the quarter are vintage check handbags, which featured prominently in our ad campaign and continued their momentum and continue to resonate. And as we move into this year, there will be several new launches that will be in our Autumn collection that ships between May and July and that will be in store.

And this is a category where we talked about the importance of recognisable brand signifiers and the right pricing. And so where we've seen our sweet spot is really around and just below €2,000 and so that will be a focus for us.

And we have some great new introductions that Daniel and the team have worked on. And we're excited to share those with our customers later this year.

Chiara Battistini, J.P. Morgan
Thank you. I'm sorry, just to clarify also, in terms of the first lines that Daniel introduced a year and a half ago, are those going to be discontinued? Are they being discontinued? Or the new lines are coming in addition to the existing lines?

Joshua Schulman, Burberry
We continue to have a mix of products in the store. Some lines exit and some lines enter. We have the new B-clip line, which was featured on the September runway, which is just arriving in stores now. And we're very excited about that. And then there's more to come from there.

Chiara Battistini, J.P. Morgan
Perfect. Thank you.

Operator
We now turn to Luca Solca with Bernstein Societe Generale Group. Your line is open. Please go ahead.

Luca Solca, Bernstein Societe Generale Group
Yes. Hello. Good morning.

I have three questions. Maybe the first one for Josh. I wonder what were the two or three things that you found coming into Burberry that were better than you had anticipated?

And what were the two or three challenges or, let's say, areas of improvement that you instead confronted? Maybe going to creativity and fashion, I would very much like to understand what role you see for creativity going forward. You produced a remarkable set of results on the back of working on the iconic products.

So what is the contribution that fashion can provide to this Burberry brand revival? Is it injecting new ideas and new elements in the Burberry brand? Is it reviving some of the iconic products? Is it both? Or what else?

And then last but not least, I presume that outlets, as you were in transition between one aesthetic and then the new one, provided an outsized contribution to the overall revenue.
What do you think would be the appropriate contribution of the off-price channel to the business once you are in steady state mode and you have achieved the turnaround? Thank you very much indeed.

Kate Ferry, Burberry
Okay, I think that's probably for Josh.

Joshua Schulman, Burberry
Do you want me to start on that one? Okay, good morning, Luca. All of your questions are really great questions, I should say. First, the two or three things that surprised me positively.

One, absolutely, as a new leader coming into an organisation, particularly an organisation in need of a turnaround, sometimes you encounter a lot of resistance and I encountered exactly none. The teams were and continue to be very open-minded and many of the people in the building already had the answers of where we had gone wrong in terms of focusing on too niche of a brand expression, not focusing on our core outerwear categories, and abandoning some of our core customers. And so, acknowledging where we were and what we had to do, I was incredibly encouraged by the team.

I'd say as I got further into my first six months here, I have realised the resilience of the brand too. And these are insights that we're just learning now as we're coming out of the festive period. Seeing the acceleration in brand sentiment has been incredibly rewarding and reaffirming to all of our belief that Burberry can become a high-performing luxury brand at the top of the sector again.

And so, that has also been great to see. We've been excited about seeing new customer growth in December for the first time in over two years.

And sometimes there's a lag between the brand sentiment indicators and the impact on conversion. And we saw a direct correlation this time, first from the launch of "It's Always Burberry Weather", and then continuing into the festive quarter with "Wrapped In Burberry". In terms of the surprise, frankly, on the negative side, it wasn't necessarily a surprise, but getting in and understanding the extent of the inventory overhang and what it would take from a gross margin point of view to clear that. But when you make a big bet and it doesn't pay out, these are products that last a long time. And to clear that has been painful and we'll continue to have pain for the next few months. And we've committed to right-size the inventory by the end of the fiscal year.

Obviously, I would prefer not to discount any inventory, but it's necessary in these circumstances and we're on track with the plans. And we're going to turn the page by next March. And what is exciting for me is to see little pockets of bringing scarcity back to the inventory model and seeing places where demand is exceeding supply. And so we have a few instances of that in China, for instance, where we had the actress Zhang Jingyi, wear the red scarf in the 'It's Always Burberry Weather' campaign. And just as in Google searches in the West, Burberry scarves are at a three-year high. Also, in China on Little Red Book, we've seen a burst of activity around the idea of the Burberry red scarf. And we're running out of stock on that particular SKU. And so if we can bring scarcity back to the model, that's great.

In terms of creativity, absolutely. There is an incredibly important role for creativity. And you can see in the history of Burberry that it has always been built on creative and commercial alchemy.

And I have been really encouraged by the early collaboration between Daniel and Jonathan Kiman.

For instance, the ‘Wrapped in Burberry’ campaign, the two of them cooked that up when they were in New York for the opening of our 57th Street store. And they were interacting with the Stollers who are some of our best customers there and who are now internet celebrities after appearing in our ‘Wrapped In Burberry’ campaign. And they shot me a text and they said, would you think it's crazy if we included our customers in the campaign? And I'm like, no, that's amazing. We just had a Townhall about being customer centric. What could be better than that? And so to see creativity comes in all different ways. We're super excited about the show coming up in a couple of weeks. And I look forward to more great ideas like that.

Luca Solca, Bernstein Societe Generale Group
Thank you very much indeed.

Joshua Schulman, Burberry
Thanks, Luca.

Operator
We now turn to Piral Dadhania with RBC. Your line is open. Please go ahead.

Piral Dadhania, RBC Capital Markets
Okay. Thank you, everybody. Morning.

So I wanted to just follow up on your marketing and communication strategy for Spring Summer 25. Clearly, the festive season campaigns have worked well, but arguably there's a bit more of a focus on seasonal gifting categories such as scarves. My question is, how do you build on that initial momentum for Spring Summer?

We imagine trench coats will be a key focus, but we were also just wondering whether ready to wear and any other categories might be in the focus. And in the same way that you provided the growth rate for scarves in the Q3 period, which I think we said was low teens, could you give us a growth rate for outerwear in the Q3 period?

And then my second and final question is just around the cadence of new product introductions as we progress through 2025. By the end of the year, could you perhaps give us an indication of what level of newness we can expect across the broader product range? Thank you.

Joshua Schulman, Burberry
Yes. I'll take that. So in terms of the campaigns, what I can say is that the campaigns will be different and should surprise and delight you and the customers, but they should have a consistency in terms of tone, in terms of the warmth of the tone, in terms of expressing a view of Britain that is appealing to British citizens living in the UK, but also a recognisable view of Britishness and a recognisable view of London and the countryside that the world appreciates and understands that, you know, this is a unique British brand.

And so I don't want to give away any thunder about the next big campaign, but it will launch on February 12th and hopefully it will build on what we presented earlier. In terms of the product mixes in the campaign, you know, some of the campaigns will be somewhat institutional and some of them will be more product focused.

We have a smaller social campaign that launched yesterday. I invite you to check out our Instagram platform if you're in the West, called Burberry Portraits. And the first portrait is Joanna Lumley, and I won't take away her thunder, but she tells her authentic Burberry story. And so the Burberry Portraits will be a series of individuals from all different walks of life telling their individual Burberry story, a little less product focus, a little more institutional.

And I think the mix of institutional campaigns and more product focused campaigns, like the next big one that comes in February, which will incorporate both outerwear and a strong fashion message, will help us build broad universal appeal rooted in our values.

I should also mention that we have a specific Lunar New Year campaign happening now in China, which again gives a warmer expression of the Burberry brand tailored for that market. The key here is to build consistency and always to have an element of surprise and delight, and "oh look what Burberry's doing this next time".

So we're incredibly pleased to have some new customers for the first time in a long time, and now we need to turn them into repeat customers.

In terms of your question about the level of newness, these brands aren't like a light switch. You don't turn on one day and have a store filled with new product 100%. So there is always a healthy amount of carryover and a healthy amount of newness, and we will continue to roll out new product as the year goes on.

Operator
Our next question comes from Rogerio Fujimori with Stifel. Your line is open, please go ahead.

Rogerio Fujimori, Stifel
Hi, good morning everyone. I have a follow-up on China and the Chinese, and China improving to -7% from -27% in the previous quarter, same with the Chinese cluster improving also more than 20 percentage points quarter on quarter. So could you elaborate on the shape of Q3 FY25 in terms of more traffic trends in China as the quarter progressed, and how much of this quarter on quarter improvement for the Chinese cluster do you see as Burberry specific, and how much was sector driven based on what your local teams in China and Asia are telling you? Thank you.

Kate Ferry, Burberry
Yes, so I think, hi Rogerio, so you know that you've seen the facts, which is region down seven, cluster flat, and I think in a previous question I talked a little bit about the Chinese tourism and where they were going, which you can see elsewhere in the numbers, particularly Japan.

In terms of, trends throughout the quarter, much as we've seen in other regions, I think it is fair to say that trends improved as we moved through the quarter. Some of that was of course helped by the signs of stabilisation in China that you've seen elsewhere, but there is no question that, whether it's our marketing improvements in visual merchandising and the other initiatives that we've highlighted in the release are definitely, having an impact.

I think also worth mentioning, we've had a fantastic new store opening in Beijing. Josh has already talked about our new brand ambassador, Zhang Jingyi, who starred in our outerwear campaign in that beautiful red scarf. I think that's also, been really, really helpful. So I think, Mainland China, a good market for us, continuing to invest in there and, you know, I think the long-term trajectory is certainly looking positive.

Joshua Schulman, Burberry
I will add to that. What we hear from the market is that our relative performance within the luxury sector has been improving this quarter, and that if we, dial back, 9 months, 12 months, we were among the most challenged businesses in the market, and now we see, you know, having more brand heat, and we see that linked to several of the specific marketing initiatives and celebrities that we've been working with. Obviously, we're not calling victory today. There's a lot to do ahead, but China is clearly very important to us.

Rogerio Fujimori, Stifel
Thank you.

Operator
Our final question today comes from Liwei Hou with CICC. Your line is open. Please go ahead.

Liwei Hou, CICC
Good morning, Kate, Josh, and Lauren. Thank you for taking my question. I have two questions.

The first one is regarding the US performance. I wonder to what extent would you attribute the acceleration in the US cluster to the crypto wealth or, you know, among the new customers you have received, is there any indication that they might have benefited, you know, from the recent rally in the crypto market? That's my first question.

And the second one is about China. You know, obviously, there's a huge quarter on quarter improvement among the Chinese cluster. Last quarter, we were down teens, this quarter, the cluster is flat. So, you know, from a traffic, conversion and AUR perspective, which part contributed the most for the Chinese cluster performance? Thank you.

Kate Ferry, Burberry
Yes, good morning. Thank you for your question. And yeah, it's a really interesting question, actually, on the US.

I mean, in terms of the trends that we've seen within the American consumers, I think it's fair to say it's still quite, quite polarised. You're seeing kind of, an increase from what I would call the more aspirational cohort. And also, good uptick in new customers as well. And as some of the comments that you've heard earlier on new customers, this is the first time in nearly three years, and that stands in the US as well. We saw a good uptick in new customers.

I think also the performance, as I said before, is also driven by what we've been doing within that, in that geography as well. We talked about the new Regional Head that we've got there, and Laura is having a really, really great impact. She's got a lot of experience across the Americas alongside Josh.

And, I think we were really encouraged as we called out in the performance, certainly within the New York area. And there's no reason why, you know, we're kind of rolling out all of those best practices throughout the US. So, I will note that actually all regions improved sequentially from the key initiatives.

I think in terms of China and the strong quarter on quarter improvements in the cluster, I think really the equation that we've seen there is very much what we've seen elsewhere. Traffic, as I said, globally is still down, but improving sequentially. So still down but improving.

You know, the real, you know, AUR, obviously, we talked about that, but the kind of globally, you know, low single digit. And so that'll be similar through the regions, but certainly encouraged by conversion. And that's absolutely what we've seen in China as well. So, traffic down, but positive conversion, which is certainly encouraging.

Liwei Hou, CICC
Thank you very much.

Operator
This concludes our Q&A session for today. I'll now hand back over to Kate Ferry for any closing remarks.

Kate Ferry, Burberry
Well, thank you all for joining the call today. Thank you for your questions, and we really look forward to welcoming you to our newly refurbished London Headquarters in May.