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BRBY.L - Interim 2007 Burberry Group plc Earnings Conference Call (AM)

Event Date/Time: Nov. 14. 2007 / 9:00AM UKT

CORPORATE PARTICIPANTS

Angela Ahrendts
Burberry Group plc - CEO

Stacey Cartwright
Burberry Group plc - CFO

CONFERENCE CALL PARTICIPANTS

Claire Kent
Morgan Stanley - Analyst

Antoine Belge
HSBC - Analyst

Lisa Rachal
Redburn Partners - Analyst

Melanie Flouquet
JP Morgan - Analyst

PRESENTATION

Angela Ahrendts - ***Burberry Group plc - CEO***

Good morning and welcome to the results presentation for the six months ended 2007 -- September 2007. As Stacey and I will discuss over the course of the next 30 minutes or so, Burberry has made solid progress in the half. Financially sales and EBIT increased 19% on an underlying basis, with a 120 basis point improvement in the retail/wholesale margin.

Strategically we continued to build the luxury component of both our apparel and non-apparel product lines while continuing the accelerated retail rollout. And operationally SAP implementation, the heart of Project Atlas, entered its final and most intensive phase.

At the same time we've continued to invest and support this renewed growth in design and merchandising, supply chain and our corporate functions.

Stacey will now review our first half financial performance and I'll then come back and provide further detail on Burberry's strategic and operational initiatives. Stacey.

Stacey Cartwright - ***Burberry Group plc - CFO***

Thank you Angela. Let me take you through some of the key financial highlights from what's been another strong half. Overall, reported revenue was up 15% to GBP449m. Adjusted operating profit, that is excluding the Atlas costs and the one-off profit related to our headquarters' move was up 13% to GBP95.1m. Reported operating profit taking into account these two factors was up 30% to GBP97.3m.

Our adjusted diluted earnings per share was up 18% to GBP0.148 per share. And we've announced a 17% increase in our interim dividend to GBP0.335 per share. We're progressively moving towards a 40% dividend payout ratio.

Let's now recap on turnover for the half. Total revenue was up 15% or 19% on an underlying basis after stripping out the effect of currency translation movements. Please note that there are no acquisitional conversion effects this half.

Retail contributed the majority of the growth rising to 45% of Group sales. Wholesale revenues represented 46% of Group sales. And licensing now represents less than 10% of the Group's revenue mix - an important milestone to note.

Within the retail growth of 25% comparable store sales were up 11% driven by strength in non-apparel and outerwear, with the best geographical performances coming from the U.S., Italy and Spain. Contributing to this was the flow of new goods monthly into our stores following the implementation of the new market calendar and a more extensive replenishment program.

We've also added 12% more space in the half with the opening of 11 mainline stores, of which three were Icon, and 13 concessions and two outlets.

Wholesale revenue continued the strong momentum from the second half of last year, as our retail initiatives benefited wholesale as well. We saw particular strength in the U.S., Europe and the emerging markets whilst Spain remained challenging. Overall, underlying wholesale revenue growth was 16%.

Licensing revenues were up 5% on an underlying basis. Apparel in Japan was flat with the growth there coming from smaller traditional non-apparel licensees in Japan, as well as our eyewear strength with the launch of our new collection late last year. The impact of converting our Yen royalty receipts to sterling was to reduce our reported revenue and profit by just over GBP3m in the first half. A similar impact will be felt in the second half as we previously advised.

Also in the second half we'll see the negative impact from the non-renewal of certain menswear licenses, and the reversal of certain phasing benefits this half. And that will bring the full year licensing revenue number to broadly flat underlying.

By geography our smallest region, Spain, was broadly flat in the half reflecting the strong retail performance through the El Corte Ingles womenswear concessions offset by the continued challenges in the Wholesale market. As we've always said we will turn our attention onto Spain as phase two, but we are working on early integration opportunities to improve its performance, including local marketing driven from the global team, testing international product in the selected El Corte Ingles stores, and integrating portions of the menswear offering.

Our performance in all other markets was very strong. We saw excellent growth in North America up 29% and Europe, excluding Spain, at 26%. And Asia Pacific also grew a very pleasing 16%.

So this brings us to our profit. Adjusted operating profit of GBP95.1m was negatively impacted by GBP5.4m of foreign exchange translation. Adjusting for this brings our underlying profit growth to 19% with operating leverage in the Retail/Wholesale channel being offset by the reduced licensing mix.

So if we deal first with licensing profit. Revenue on a reported basis was marginally down after the Yen impact of GBP3.4m. And gross margin at 100% showed exactly the same impact. The Yen weakness impacting both sales and gross margin flowing through to disproportionately impact operating margin bringing it to 83.5% for the half.

So let's look now similarly at the retail and wholesale profit in the half. The 17% growth in retail and wholesale revenues translated into a 23% growth in gross margin, as gross margin expanded by 300 basis points. We saw a 22% growth in operating expenses, and this brought our adjusted operating profit from the retail wholesale channel to GBP62.1m up 26% and showing an increase in the operating margin from 14% to 15.2%.

So why is the gross margin up 300 basis points? Nearly half of this was due to the realization of Atlas benefits in the half of GBP7m largely through sourcing. Remember also that we had early sourcing gains in the second half of last year. Gross margin also improved due to mix changes, both from more retail where we now have 45% share versus 43%, and more accessories which grew 35% underlying in the half. And finally, we've seen higher sell throughs into retail and consequently reduced markdowns.

Our retail/wholesale operating expenses, as a percentage of revenue, increased by 180 basis points in the first half year-on-year. Part of this is structural as we shift to more retail with more store openings. However, as previously flagged, the exceptional levels of business growth we're experiencing has necessitated greater investment in our operating expenses, both to deal with short term pressures and, longer term, to ensure that we have the right infrastructure for continued growth.

The largest impact has been the expenditure in the logistics and distribution facility. More on that in a moment. And we've also continued to invest in building a global supply chain team. We have spent more on legacy IT systems whilst handling this growth. And in corporate headquarters we've invested in design and merchandising talent to continue to drive product innovation. We've created a centralized customer service function and have up-weighted other corporate functions.

So let me go into distribution in more detail to show you some of the issues we're facing on the cost front. This slide illustrates very clearly the scale of the physical challenges in the business. It shows the number of units tto be processed in our main distribution facility in Blyth in the U.K. You can see we've needed to double throughput year-on-year. This is a result of both the strong business growth as well, of course, as our change in our business model.

Our short term and, more costly solutions, have been to add overtime, additional shifts, to add satellite space in the local vicinity, and then also to take on a short-term flexible additional facility in the Netherlands.

Longer term we know how we want to run our distribution network leveraging off a global partner across three regional distribution hubs. But until then we're incurring additional costs to support the volume of growth that the business is seeing.

Looking now at the full income statement our adjusted operating profit of GBP95.1m shows 13% growth. Atlas costs were GBP12.9m in the half and are expected to be around GBP19m for the full year. We made a one-off gain of GBP15.1m relating to our headquarters' relocation. We will be moving to a new location in Horseferry Road in late 2008. We've incurred interest charges of GBP1.5m very much in line with prior year levels, resulting in profit before tax of GBP95.8m. We expect a further interest charge in the second half.

The tax rate of the reported profit is 31% for the half, but when looking at adjusted profits and earnings a rate of 30.2% is applicable. This reflects a 0.8% adjustment relating to the profit on the sale of the Haymarket building.

So turning now to cash flow, the main element to highlight is the increase in stocks of GBP68.7m. And broadly half of this increase supports the growth in the business and half the change in our business model that we've previously discussed. This includes in clothes instead of only making to order, we now hold free stock for replenishment and we've had higher levels ahead of this key holiday selling season. This is the biggest contributor to the increase.

The second largest factor is that instead of focusing around two markets a year we now have five, including an important winter market that delivers in October just after half year end. And finally, a smaller factor but one to note, we've taken back certain product categories such as men's shirts in Europe that were previously licensed and now fulfill that product category internally, and accordingly hold the appropriate inventory for it.

This September period end position is expected to be the peak for inventory with some of this stock increase then expected to unwind in the second half. So in total, cash inflow from operations came to GBP10m this half year compared to GBP34.6m last half year.

Moving on down the cash flow statement. I'd highlight capital expenditure in the half of GBP20.9m versus GBP14.5m last year, and this reflects the increase in new store programs as well as increased refurbishments. For the full year we're now expecting capital expenditure of between GBP50m and GBP55m reflecting the deferral of a couple of store projects into '08/'09. And we received proceeds of GBP29m primarily from the sale of the Haymarket property.

You may like to note that associated with this in '08/'09 we will be incurring one-off CapEx in the range of GBP20m / GBP25m on the fit-out of our new offices in Horseferry Road. So for now this brings us to free cash outflow of GBP17.3m in the half versus GBP2.4m last half year.

And then finally during the half we've returned over GBP70m to shareholders in the form of dividend or share buyback. This brings us to net debt at the half year of GBP89.2m versus GBP55m last half year. As in previous years we've frontloaded the share buyback program. To remain consistent with our full year position of a broadly cash neutral balance sheet we would expect any share buyback activity in the second half to be minimal.

Now let's look at Atlas, with a reminder of our twin goals. Firstly, to improve information integration and transparency through the implementation of SAP globally. And secondly, to improve business processes through the establishment of global functions in supply chain and logistics.

Let me just update you on the SAP implementation. As this chart shows we're now in the final stages on Atlas. We've completed the core build of the SAP solution for Burberry, and have deployed or are deploying it in Europe and core central functions, especially what I call the engine rooms - the product divisions which drive products into the global business.

After the end of this year, you'll be pleased to hear, we will no longer be separately identifying either costs or benefits as Atlas, as it all becomes part of business as usual. Our full rollout to the U.S. and Asia will follow during calendar year '08.

As we told you in October with the growth of the business significantly ahead, of that which was envisaged when Atlas was first launched, we've had to slightly adapt our deployment plan. This has increased current full year costs which are now anticipated to be around GBP19m rather than GBP15m. But more importantly, we're still on track to deliver the targeted P&L benefits of GBP20m. Of this, GBP6m was delivered in the second half of last year and we've secured a further GBP7m in the first half of this yearand we anticipate an incremental GBP7m in the coming second half.

These gains are predominately from product sourcing and some benefits from our disciplined purchase order processes on non-stock procurement. There are, of course, further benefits to come beyond this financial year.

As you can see in this chart some better optimization of stock through improved visibility to more savings through direct deliveries to better relationship management with our customers we do expect to see continuing positive impact on sales, gross margin and operating expenses which will be business as usual going forward.

Turning now to the outlook, let me highlight several points. In Retail we're on track to have 12% average space growth in the second half. In Wholesale we're anticipating mid-teens underlying growth for the second half, having delivered 17% growth in the equivalent period last year demonstrating the continued momentum. In licensing we reaffirm our expectation of broadly flat underlying revenue in the full year. I've already commented on Atlas, CapEx and the tax rate.

And now before Angela returns to take you through her update let's share with you some first half highlights.

(VIDEO)

Angela Ahrendts - *Burberry Group plc - CEO*

It's a lot more fun to see the strategy come alive that way but let me give you a little further insight. In the first half the evolution and refinement of our business and operating model continues in line with the five strategic themes. And this morning I'll offer selected highlights of the first half progress under each of these, and then follow with a more in-depth look at two key growth drivers - outerwear in the product categories, and United States markets in the geographic regions.

When we say leveraging the franchise we talk about the more coordinated use of our brand assets, and greater integration of our organization globally to create more responsive products and operate in more efficient ways.

Our creative capability is one of our most important assets, and we continue to apply it more effectively and consistently in the first half. With Christopher Bailey our Creative Director, and his amazingly talented team, Burberry has industry leading design capability. Burberry's runway shows routinely are among the top five Milan shows viewed on the internet - almost two million visits. Both industry insiders and consumers want to see what Burberry is doing as it happens.

Christopher has received numerous awards. Just last week he was nominated for British Menswear Designer of the Year. And later this month he'll receive the prestigious Bambi Award for Fashion in Germany. In May we talked about the integration of the design team globally in London in order to better harness this creative talent and enhance aesthetic consistency across product tiers and all categories.

The Autumn/Winter '07 product represents the first full season of this cohesive design effort. Not only did our runway sales almost double in the half, but the center of the pyramid that tailored or wear to work segment also achieved growth of over 25%. This integration also allows us to utilize Christopher's expertise in building the next generation of design talent internally.

The development of our marketing imagery also continues to be integrated. Both design and marketing now reflect a single point of view that emanates from the same source. The Spring and Autumn 2007 campaigns have been key to attracting the new younger luxury customer to our stores and brands. Similarly, the principle extends of the design of our stores and I'll discuss our new stores seperately in a couple of moments.

In so many ways this leveraging of our creative assets complemented by the expertise of seasoned purchase has been a key driver of sales in this first half.

Turning now to non-apparel which was one of fastest growing product groups in the first half, up 35% underlying, and it now contributes 31% of our retail and wholesale revenue. This progress has been led by luxury handbags and shoes. And you may recall last Autumn marked the re-launch of our luxury handbag strategy.

During the first half the luxury segment accounted for over 50% of handbag sales in our own stores. And as a result the average price per handbag is up more than 25% year-on-year. Just a small example but a great wholesale customer, Neiman Marcus, re-ordered 72 of the Studded Knight Bag that you saw throughout the DVD which retails for $3,000.

It's also worth noting that Burberry, for the first time, appeared on the Luxury Institute List of Top Ten Handbag Brands as named by luxury consumers. And while we're pleased with this progress at the top of the pyramid we recognize that there's still more to do.

Similarly, progress continued in our emerging shoe business which also more than doubled in the half. Success here is driven by the same intensified focus as our handbag strategy, including attention to the category at the runway level and use of that innovation throughout the entire product pyramid. The addition of specific product design and merchandising talent, dedicated sourcing expertise strategically highlighting the category throughout our marketing program, and some of you actually may be sitting on one now, we gave you a copy of the new holiday catalogue that was just mailed this week.

Under retail led growth, our third strategy, we continue to concentrate on improving store productivity, adding space in new and existing markets, developing new store formats and more broadly moving to a more dynamic way of operating across all aspects of our business.

In the first half we renovated three mainline stores and several concessions. This includes a brighter more modern store setting which you see here. The large LED screen and the large images from our marketing campaign, new high capacity fixturing which allows more inventory to be held on the floor, facilitating faster and improved customer service, along with dedicated fixtures to highlight our under exploited categories like shoes and sunglasses, all conveying a more lux and vibrant brand image.

Pacific Place in Hong Kong, which is featured here, is a renovation that we just completed mid September. Despite being among one of our most productive stores historically, sales are up 40% post renovation with our average unit retail up over 30%.

As Stacey mentioned, we opened eight new mainline stores during the first half. Two in the U.S., five in Europe and one in Asia all with this new modern aesthetic. We also opened three Icon test stores our new smaller store format between 1,500 and 2,500 square feet with over 60% of the assortment in non apparel and the remainder focused in outerwear. We're in the very early phases of this test, but we are testing each in a different region of America and will continue to adjust the assortment and the format over the next six months. We are encouraged by the early results.

Lastly, you've seen the 11% comp for the half against 11% last year. This validates the initial steps that we've taken to reorient and modernize our operating model, reflected in exciting new product design and marketing, more frequent flow of fashion merchandise to our stores, and a core replenishment program.

Our fourth theme is investing in under-penetrated markets. I'll come back to the United States shortly, but first I'd like to highlight a few points on emerging markets. Through franchise partners we now have eight stores in Russia and Eastern Europe, seven stores in the Middle East, one in India, 34 locations in China, and five stores in Latin America. In the first half our partners opened six stores including our third store in Istanbul, our third store in Russia in Rostov on Don and Beijing. These markets are growing and developing so quickly. Comp stores gains are averaging the highest in the world in these stores. In the last two months Stacey and I have both been to the Middle East and China and we're heading to Russia in the next couple of weeks. We see substantial opportunities in these exciting markets and are increasing our commitment here.

In China, where Burberry was a pioneer, we are now actively working with our partner to upgrade the store base and aggressively pursue new real estate opportunities. We've just agreed terms on a space in India's first true luxury retail development which will open early next year. In the second half we expect to open a further ten franchise stores with our partners. And working with them we expect the emerging markets to become an increasingly important part of our business over the next several years.

Our final strategy operational excellence. Stacey updated you on the SAP implementation and I'll just spend a few minutes on supply chain which is undergoing fundamental transformation.

First, we're centralizing and reinforcing our various sourcing functions. And as a part of this we're reducing our reliance on some smaller third party agents. Second, we're shifting volume apparel categories from a CMT to an FOB model and this essentially means that what Burberry's doing is transferring the responsibility for the buying, transporting and managing of all raw materials in the intermediate stages of production -- we're just shifting that process to our vendors. In casual apparel this is the most efficient and standard mode of operating.

And third, as a part of this we're moving to fewer vendors. Those that are larger, more sophisticated and, again, able to provide the full set of resources required for a business of our size. We had over 300 vendors last year and we expect to reduce that significantly within the next couple of years. This transition will result in a faster, more efficient and more effective sourcing operation.

On logistics, we mentioned the formation of a global taskforce in May. From this we expect eventually to arrive at regional distribution hubs as Stacey mentioned, notwithstanding the addition of the temporary facilities in the first half we needed to accommodate the business's growth, increase the use of direct deliveries from factories to the regions and often directly to the stores. And to partner with one or two transportation carriers worldwide. Again the aim here is speed and cost efficiency. We're off to a good start. This supply chain transition will continue to be a working process.

So that's a brief update on Burberry's strategic themes and some of the growth drivers in the half. Now I'll go more in-depth on two important strategies or strategic areas for the Company - Outerwear and then the United States.

I've talked with you about Outerwear as the cornerstone of the brand. How we love its multi-generational, dual gender appeal, its high retail price point, its natural affiliation with other categories like cashmere scarfs and umbrellas which enhance opportunities to drive multiple sales. The investment nature of the category for the consumer. And it's our heritage. All our research demonstrates that Burberry is top of mind for consumers in this destination category. None of our luxury peers can match Burberry's position in outerwear.

Because of these characteristics we consider Outerwear more than an important component of our product line. We approach it in a much more holistic way. Outerwear is not just a category but a strategy which runs throughout every theme and everything we do. To illustrate this we thought it might be useful to look at a specific example of our women's trenchcoat offering.

We've talked about denominating the trench category and building out our pyramid. So taking Autumn/Winter '05 as a starting point you can see a relatively narrow assortment, more classically oriented, a little more mature sensibility and even under represented on the runway. Given our modern classic luxury positioning along with our heritage as the inventor of the trenchcoat we clearly were not fully capitalizing on the opportunity in this iconic category.

So let's turn to Autumn/Winter '07. You still see those classic pieces - we want to retain this consumer. But we now have a much more comprehensive higher fashion and luxurious offering. Half of the runway looks now feature outerwear and most relate to the trenchcoat. We've also added higher price point styles to the centre of the pyramid, and a seasonless packaway component has been added at the base of the pyramid to better address warmer climates and the travel needs of our luxury consumer.

These iconic trenches are a core part of our marketing campaign and it always starts on the runway and translates in a synchronized consistent way across all consumer touch points. This happened to be the trenchcoat which is an item that also when we talk about price retails for about $12,000. It was featured as a full page in Neiman Marcus's catalogue, was selected by Jennifer Lopez to wear her in new DVD as well as live at Fashion Rock in front of millions of consumers worldwide, and just an intricate part of the strategy again when you talk about driving outerwear up into luxury.

As I mentioned in May fundamental to the Outerwear strategy has been the formation of dedicated outerwear design, product development as well as sourcing team. Outerwear has also been a pillar of the initial replenishment program that we put in place last year. The top two replenishment styles globally are outerwear, are actually trenchcoats.

Sales of women's outerwear have more than doubled over the last few years. You can see from the acceleration from '06 to '07 as we intensified our efforts here. Part of this has been growth in average unit retail price up 30% for Autumn/Winder '07. We will continue to pursue this core strategy stretching and expanding the pyramid, adding outerwear for new occasions and uses - Evening, for example, and Sport andmicro merchandising a sub-category at each tier of the pyramid. Burberry also has outstanding opportunities to extend this strategy to our men's and children's businesses in a equally comprehensive way.

So now let's turn to the United States a large under penetrated market for Burberry. During the strategic review last year we quickly identified the U.S. as substantial opportunity for Burberry, and we have recently reconfirmed our initial growth assumptions.

First, the U.S. market has attractive fundamental characteristics. U.S. consumers historically have under consumed luxury, relative to their European and Asian peers. As they have started to catch up, and the trading up phenomenon is well documented, the U.S. has become on of the fastest growing luxury markets. And its sheer size and simple business model make it all the more attractive.

Secondly, with this dynamic market Burberry is under-penetrated relative to other major markets. It represents about 25% of our total revenue. And as you can see on the slide Burberry brand market share is also the lowest in the U.S.

And lastly, we feel we're very well positioned to capitalize on this market. Burberry's brand aesthetics, broad product offering and price positioning are well suited to Americans, particularly those moving up into luxury. And our most seasoned regional management team and best development regional infrastructure are also found in New York. And this team has long standing relationships with large retail estate developers and our high end department store customers.

In 2006-2007 North American revenue was slightly under GBP200m, with 70% retail and 30% wholesale. In terms of retail we operated in 44 mainline stores and 17 outlets as of September 30. Our wholesale business is dominated by five key accounts. The retail and wholesale channels are complementary. Research shows that the best customers buy Burberry both through our own stores and those of our wholesale partners. To that point we achieved strong growth in both channels last year, up 21% and 11% respectively, with further acceleration in the first half, retail up 24% and wholesale up 42%. Looking forward we see continued opportunity across both channels.

Turning first to retail. The chart on the left shows the growth in Burberry's mainline stores from 24 in 2004 to 44 at the end of September 2007. We have plans to open four additional stores this year, and next year we expect to add a minimum of seven.

The chart on the right looks at store counts of a relevant group of brands operating in the U.S. In reviewing the market last year we benchmarked our location against markets in which two or more of our peers operated but we did not. From this analysis we concluded that Burberry had substantial room to increase our store base. We expect the store base to grow through the addition of new markets, including new types of markets like Aspen, which will open later this year, expansion of existing stores as well as the addition of second or third stores in high demographic key markets.

The next two slides provide a glimpse of recent openings. The small store opened in Natick, Massachusetts - a Boston suburb in September. And this test Icon stores opened in Copley Place, downtown Boston in July. It's about a mile from our flagship store there on Newbury Street.

Boston exemplifies what we call a clustering approach to an affluent high demographic market. We operate four formats - flagship, mainline, Icon and even have an outlet nearby. Our main department store partners are all also present. This combination of multiple formats and wholesale distribution allows Burberry to capitalize on the opportunities in this high volume market.

New mall stores in the U.S. are an attractive proposition. First, we're generally working with large sophisticated developers which eliminate the regulatory and operational complications faced in almost all other geographies. The process is relatively standardized and swift.

Secondly, store level economics are very strong. The initial investment's approximately $2m after the landlord contribution. Located in destinations luxury oriented malls these stores tend to open quite productively and generate a better than 20% pre-tax ROI in year one, which grows to over 30% by year three. These economics only improve as we continue to drive our store productivity.

Now looking at North American wholesale. Over 75% of the business is generated by the market's five high end department stores which is not atypical for a luxury brand in the United States. Neiman Marcus, Saks Fifth Avenue, Nordstrom, Bloomingdales and Holt Renfrew in Canada, with the remainder sold to high end specialty stores such as Barneys in New York.

Looking at the department store business, each of these customers has its own distinctive positioning and consumer profile defined by a whole range of variables. Burberry's diverse product offering allows a customized approach to each customer. Even within a specific product category we can micro merchandise our assortment to fit the clients consumer profile. This capability is a part of our strategy to increase Burberry's penetration in these key accounts.

The chart looks at Burberry's current penetration in two department store customers. The top bar in yellow shows each customer's number of stores, the bar below display the number of doors in which we sell our various product categories. While the goal is not to sell every product category in every door we have substantial room to expand. Even with an existing door for a particular category we often have opportunities to significantly increase our penetration.

We often work with these customers to develop strategies to increase our presence and this partly stems from the experience in our own stores as we build and benchmark performance in this business. We leverage the expertise that we're gaining in retail to further stimulate our wholesale growth.

Part of what I've just described is just a more professional approach to managing the wholesale business. These are also large public companies which huge growth plans who need large, great brands with sophisticated business capabilities to help them continue to fuel their growth. To that end we've taken a number of steps to continue to improve our execution.

First, we're partnering closer at all levels to develop the strategies together. Second, we've added talent to our team with a new Head of Wholesale, a new Season's Menswear executive and a professional planning function. And third, collaboration with our own retail team enhances the wholesale execution. Finally those same initiatives that are driving our retail growth, including product innovation, marketing and operations also are benefiting these wholesale customers.

This slide demonstrates the progress we've made over the past year with sales to these top five customers expected to exceed $100m in the first year of execution, up 40% as I mentioned earlier. Still with these five retailers alone generating in excess $20b in annual sales I'd like to think that we have a lot more room for further expansion within their doors.

So in conclusion, it's been another great half. We've made solid progress on our strategic agenda, delivered a strong set of numbers and continued our investment for future growth.

At the same time we have our work cut for us in the second half. This quarter alone will be among one of our most demanding. As Stacey mentioned it seasonably our peak quarter, only magnified by our strong growth.

We continue to evolve our sourcing and logistics functions. And at the same time we're undergoing the final and most critical phase of our SAP implementation in the central processes of our business, which control the flow of goods from suppliers to our regional businesses as well as in our large European retail operations.

We're diligently working our plan to navigate through this, adjusting course daily if the circumstances change. So far so good. So we remain very focused on the factors we can control, cognizant, very cognizant, of the external environment.

These present demands aside, I feel great about where we are as a company and as a business, very confident in our strategies and excited about the opportunities. We know that luxury is great growth market globally, and while perhaps not fully insulated from economic cycle, a sector that historically tends to outperform.

And we like our position within this market, our distinctive luxury positioning, our diversified product offering with authority in outerwear, menswear, womenswear and non-apparel categories. Our balanced channel mix with strength in both wholesale and retail, and our broad geographical portfolio from the immature U.S. to emerging markets.

And probably the most important element, Burberry has a world class management team, a truly passionate results orientated team that lead a stiking entrepreneurial culture with the flexibility to respond to changing external conditions. I am constantly impressed by their agility.

And we continue to develop new possibilities whether it's fully capitalizing in our menswear heritage, seizing the childrens wear opportunity or entering new product categories like jewelry most recently featured on our runway show. There's a lot of excitement ahead.

Thanks very much for your attention and Stacey and I will now take your questions.

QUESTION AND ANSWER

Claire Kent - ***Morgan Stanley - Analyst***

Hi, it's Claire Kent from Morgan Stanley. May I ask three questions please? The first question is going back to slide 15 where you showed the increase in the operating expenses. My question really is that you pointed out that some of these were short term fixes, so I wondered if you could explain how much of the OpEx has been burdened by short terms fixes? And also when you will no longer require these short term fixes?

Stacey Cartwright - ***Burberry Group plc - CFO***

Okay. Do you want to do three together or shall -- we'll take them one at a time then.

Claire Kent - ***Morgan Stanley - Analyst***

Okay, thanks.

Stacey Cartwright - ***Burberry Group plc - CFO***

In term of the OpEx, that 180 basis points which I flagged early, the majority, over half of it is due to increased warehouse and distribution costs. Now when I talk about short term fixes there are some elements, which are non repeatable like bluntly trunking costs between Blythe and our new facility out in the Netherlands.

But the majority of it is essentially additional running until we get ourselves to the position of being able to run with streamlined European, American and Asian distribution hubs. We talked about that being slightly further out. We need some of the information to be gathered from the SAP implementation to make sure that as we go into negotiations with a third party partner that actually we've got the right foundation for that. So it's not one of these overnight fixes I'm afraid.

Claire Kent - ***Morgan Stanley - Analyst***

So for example, what sort or timings should we expect for this kind of ultimate solutions, very roughly?

Stacey Cartwright - ***Burberry Group plc - CFO***

We'll be working on making improvements as we go into '08/'09 but I'm not saying we'll be there in that next 12 month period.

Claire Kent - ***Morgan Stanley - Analyst***

Thanks. The second question is you've been testing the Iconic store concept in a number of markets including the Copley Place store in Boston and I wondered if you'd -- where your level of confidence was on the Iconic store.

Angela Ahrendts - ***Burberry Group plc - CEO***

Very excited so far but it is very early days. And what we strategically did was we opened on in each of the different regions, so we've got the one in the northeast, one in the southeast, one in the southwest, and just opened actually last week one in Beverley Center in Los Angeles.

So we are, and I will tell you it's slightly different aesthetics, slightly different fixturing, slightly different assortments, because we really want to study this and make sure that before we invest aggressively and take this to scale that it's something we can do rather quickly. So we've said internally we're going to continue to study it for next six months to understand what's going to work the best for us.

Claire Kent - ***Morgan Stanley - Analyst***

And the handbags in the Iconic store, is it more weighted towards the iconic handbags versus the upper handbags in the Iconic stores.

Angela Ahrendts - ***Burberry Group plc - CEO***

Honestly no, it's pretty balanced. There is a core, we're got a phenomenal core business with our Haymarket and our Nova programs which still represent about 43% of the total handbag business. And also remember we continue to add innovation there and take those further up the pyramid. So it's a very balanced assortment. I will tell you we're doing slightly more in luxury handbag sales but the initial assortment is about the same.

Claire Kent - ***Morgan Stanley - Analyst***

And the last question is on Atlas. Obviously you successfully implemented Atlas now in September and October in the U.K. and Europe and you're rolling it out in U.S. and Asia. So really my question is when will you have the transparency that SAP is meant to give you? And it does really relate to the intangible benefit. But if you just can answer it in terms of when you will have the transparency?

Stacey Cartwright - ***Burberry Group plc - CFO***

Transparency builds, so we've already got a hell of a lot more transparency than we've ever had before. And we've really had that -- go back to May when we opened up our Spring '08 market, we were taking all of those orders on the one selling tool globally. So for the first time our product divisions were able to use the SAP tool to play around with what the product assortments were, what was coming in. They've already got transparency on certain parts of the business.

If you want to go all the way through to when we have full transparency to be honest that's not until we've got the U.S. and Asia on, which will be during calendar '08. So I think the teams are excited with every day there's something new that they see, but from your point of view trying to quantify intangibles it will simply build because the transparency gets better as each day goes by.

Claire Kent - ***Morgan Stanley - Analyst***

Okay. Thank you.

Antoine Belge - ***HSBC - Analyst***

Hi. It's Antoine Belge of HSBC. Three questions. The first one is actually the follow up on Claire's question about SG&A but perhaps with a shorter view. In the second half of this year, if you leave aside the GBP6m Atlas related costs, how do you see the other SG&A evolving? That's my first question.

Stacey Cartwright - ***Burberry Group plc - CFO***

Okay. Well you've seen the pick up in our operating expense percentage in the first half. Again I would advise you, if you're trying to build your model, to put in a similar uplift in the second half. It will be a fairly sizable piece because of all the dual running that we talked about in distribution costs.

Antoine Belge - ***HSBC - Analyst***

The second question on the gross margin in the first half. Most drivers of gross margin were progressively orientated and you achieve 300 basis points, if I leave aside the licensing business. Do you think that it's a sustainable rate of growth for the full year?

Stacey Cartwright - ***Burberry Group plc - CFO***

Again you'll see benefits coming though in the second half not least of which because we talked about the way in which the Atlas benefits are phased. So we delivered GBP6m benefit in the second half of last year. We've delivered GBP7m in the first half of this year, the majority of which impacts gross margin. And we flagged that there's another GBP7m to come in the second half, of which the majority will impact gross margin. So, yes, you will see a pick up.

Antoine Belge - ***HSBC - Analyst***

And finally I totally agree on your U.S. market strategy. Having said that on the short term what's your outlook for holiday season in the U.S. during calendar '08?

What's currently the state of mind of your top five department store customer in the U.S., how do they see the future?

And also perhaps a sort of broader question. In terms of category growth in the U.S., do you think if there is any going to be downturn? How do you see the apparel category versus the handbag category?

Angela Ahrendts - ***Burberry Group plc - CEO***

I have to make a note and remember all those. In terms of our outlook, it's tricky for us in the middle of quarter to comment. And our most important weeks are ahead. The only good news is the weather has dramatically turned in the U.S. and that usually plays to our favor, specifically in the northeast.

And the retail department, our luxury partners if you will gave out there October comps a couple of days ago as well and I think you saw where where Saks and Niemans have both ended up. Saks recorded about 10.5% comps and Niemans about 8.5%, so and that backs me up from the prior month.

Nordstrom did revise their guidance slightly, quite recently but did call out that luxury and specifically Burberry were both contributors of high end of the business not impacting that guidance. So I think reaffirming our guidance is probably the best indication of how we feel about the market.

From a category standpoint it's tricky, because we started our very early on intensely focused on non apparel. That has been more heavily marketed, non apparel, and most of that category got better, it increased traffic into store and we actually sold more outerwear. So right now we just say that we're so balanced between outerwear, menswear and non apparel and there are hot new categories coming, like shoes where we're grossly under-penetrated versus our peers and jewelry or sunglasses.

So I think it's more important that we take a real merchandised approach and we now instead of accessories, we're saying non-apparel because there's so many opportunities there. So based on the breadth you might see that penetration get a little larger but we're very focused on also retaining our apparel market share.

When you line us up against our top five peers we've got the largest menswear and the largest womenswear apparel businesses so I think it's really important we continue to protect those.

Lisa Rachal - ***Redburn Partners - Analyst***

Hi, Lisa Rachal from Redburn Partners. My first question is on luxury handbags. Last year you were a bit of a victim of your own success in that the demand significantly outpaced your expectations and as a result you had to source it at non-ideal rates. I'm just wondering how margins improved in luxury handbags so far this year. And what are your expectations for further improvement? Do you think there's still significant opportunity there?

Second question is on retail/wholesale EBIT margin for the full year. Stacey, do to you still think that 16% for retail/wholesale EBIT margin ex Atlas costs is a reasonably objective?

And the third question is actually on Prorsum. Just wondering how your distribution base has evolved through a number of points of sale both in the U.S. and Europe. Are you seeing a significant increase in number of customers where Prorsum's listed and also penetration in the department stores? Thank you

Angela Ahrendts - ***Burberry Group plc - CEO***

So kind ofdivide and conquer on this one. From a handbag margin we don't distinctly break everything out. But you absolutely assume that as we've gone to scale and we know have some great sourcing expertise into the company for one year now you can assume that the margins in non apparel are absolutely increasing and will continue to increase.

You want to take the next couple there?

Stacey Cartwright - ***Burberry Group plc - CFO***

In terms of the retail/wholesale, when you talked about getting towards 16% this year for the retail and wholesale margin, I would flag that that's before some of these one off costs that I talked about on the distribution front. So if you do the maths and factor that in you'll come in with a slightly lower number I think.

Angela Ahrendts - ***Burberry Group plc - CEO***

And from a Prorsum standpoint or runways inside, the distribution base actually hasn't changed dramatically. If you take a market like the U.S. where you've really got your five big partners, and you walk into Saks we're actually still in Saks, that there's one little bar and that's it. So the opportunity has been number one with Prorsum to dramatically increase the penetration in the existing doors, including our own.

So for example in the U.S. we used to only carry the runway line in eight stores, it's now in 24 stores. And not only that but there are massive trunk shows and events now every season to continue to lure that customer in. So it's not really about expanding doors, we want to keep that very precious, very select.

Melanie Flouquet - ***JP Morgan - Analyst***

Yes. Hi. Melanie Flouquet from JP Morgan. I have several questions. The first one is could you tell us regarding timing when would you be attacking phase two, so Spain. That's the first question. Given that it is a little bit of the drag overall on the very strong performance elsewhere and also given that if was rather deteriorating, if I'm not wrong, of late. So what could you do for wholesale, when will you've attacking phase two. That's my first question.

The second is sorry, coming back on timing the three regional hubs regarding distribution. You did say you are going to start working on this in the short term but it's not going to be a short term fix. When do you think you'll see these hubs actually in place? That's the second question.

And actually start with those. I'll have another one later.

Angela Ahrendts - ***Burberry Group plc - CEO***

I'll take Spain first to start. I think we had Stacey try and give you a little of color. So yes we always said phase two but we're into phase two. But I think the first thing we're just saying, what can we naturally do to have more synergy with that business.

And I think the fundamental thing everyone has to understand is, is the product there is a different label and it's premium positioned, it's not luxury product. It's not dissimilar to what Lauren or Polo Jeans is to Ralph Black Label, so it's a totally different price proposition and it's a different department. For example in the department stores, ECI, where they play. So you have to be very careful.

So the first thing we've said is why don't we look to start importing our luxury goods into that market. So we have four retail stores now with our product in it. As Stacey mentioned we're started to integrate the -- they had a whole separate marketing department doing their own thing. That doesn't exist anymore. We took all the marketing back and that's all done out of corporate now.

We've also taken a number of other back end functions and started to link those in. And then as Stacey mentioned we took -- they've got a very huge menswear business with the largest category being outerwear, so we've also fully integrated their men's outerwear category with our men's so you have one global men's outerwear offering now.

And were selecting to do it just step by step, because it is a 40 year old business with as many people in that office as in our headquarters office and it nice percentage of our profits. So we're doing it very thoughtfully. We've got a good management team and the specialty stores will continue to erode and that's okay. We have been very, very highly distributed in the market. We're partnered very close with the ECI, our department store partner, but it's just one month at a time.

Melanie Flouquet *- JP Morgan - Analyst*

What would make it turn around in your view, Spain wholesale?

Angela Ahrendts *- Burberry Group plc - CEO*

Honestly, we're the largest, you understand the Mangos and Zarasall the high street guys are based out of Spain. We are the largest wholesale brand in the market. So turnaround, we've converted to a concession model in Spain and the business has just been terrific.

Stacey Cartwright *- Burberry Group plc - CFO*

You've got two polar stories going on in Spain. You've got he fantastic story coming out of the womenswear concession. I pulled that out as one of the strongest retail markets in this half. And yet conversely you've got the wholesale market eroding.

So we talked about really it's a very mature market to start with, and the way to get more value out of that market is to take more of the value chain as you shift towards retail. Coupled with moving to that in a very thoughtful way as Angela said, because you need make sure you've got the product assortment right and you're not causing too much discontinuity in the market place with the luxury product versus what the market's used to.

And I know you're going to try and get me on timing on the regional hubs, Melanie. There's a lot of groundwork to be done and you can assume that we are very active now on the groundwork. If you're going to hook up with a global partner for a long period in the future you want to make sure that you've got the foundations right and you're not paying for things that you then don't use, or that you haven't projected your growth properly so you end up being caught out that way.

It would be very easy for us to say, look we'll just switch on a regional distribution hub today, but we need to do it on the right commercial terms. And for that we need the right data.

Angela Ahrendts *- Burberry Group plc - CEO*

And I would also jump in and say in the United States we already opened the regional hub in Vinelands, New Jersey, so a very large state of the art facility that opened a couple of months ago. So one region down.

Stacey Cartwright *- Burberry Group plc - CFO*

Two to go.

Angela Ahrendts *- Burberry Group plc - CEO*

Two to go.

Melanie Flouquet *- JP Morgan - Analyst*

Thank you. My next question is actually on the U.S. There is a lot of press articles at the moment and some comments from some of your peer group that maybe the access price is being a bit challenged within luxury at the moment, not at least the comments of Coach, that were well publicized on low traffic.

Can you tell me what is your view regarding this? What is the positioning that going to potentially stop you? Are you seeing some of your pockets suffering at all? Would you expect some of the price points to become more than others within the offer? And also or are you insulated just because you're under penetrated? What is your way to approach this issue?

Angela Ahrendts - ***Burberry Group plc - CEO***

I wish I could answer every one of those questions perfectly. I think when Coach talked about an accessible price point for them that's down around $200 to $295 for retail, where for us accessible is $100 higher than their legacy collection. So accessible for us is more $500 to $750 retail. I don't think that that's a fair comparison.

I think like I tried to cover in the presentation. We're totally insulated. We see our high, high end doing great and we've not seen any pocket be impacted with -- any category, any pocket be impacted up until this point.

But I think the other thing that helps us out a bit and I tried to get across our diversity. 31 of our 44 stores in the U.S. right now are clustered in high demographic markets, which historically are naturally impacted less also than some of the smaller markets. So right now categories seem fine, markets seem fine, and we're come out further in January.

Melanie Flouquet - ***JP Morgan - Analyst***

But I suspect at the same time what was strange about Coach that their access price is not what was suffering in reality. The articles were claiming it was access price but outlets was still doing great. So I actually wondered whether it's not that access that is actually being impacted. Would you have any comments about that.

Angela Ahrendts - ***Burberry Group plc - CEO***

No I don't. I'm not as intimate with their business, so I can't

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Melanie Flouquet - ***JP Morgan - Analyst***

You have outlets as well though.

Angela Ahrendts - ***Burberry Group plc - CEO***

We do have outlets but again our average unit retail is probably double what theirs is and our outlet trend is continuing as strong as it always has been for the last 18 months.

Melanie Flouquet - ***JP Morgan - Analyst***

Thank you.

Angela Ahrendts - ***Burberry Group plc - CEO***

Right. Thank you very much. Appreciate it.