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PRESENTATION

Marco Gobbetti - *Burberry Group plc - CEO & Executive Director*

(technical difficulty)

Interim results presentations. Our new Chairman, Gerry Murphy and I are very pleased to welcome you here today. In terms of our agenda, Julie will start by covering our financial results and guidance. After this, I will give an update on our strategic progress and close with a Q&A.

Before we begin, I would like to say a few words about our performance. Firstly, I'm pleased with our progress in the half. Our journey to transform and reposition Burberry is underway, and the initial response from influencers, press, buyers and customers has been exceptional. We continued to manage the business dynamically through the transition, and group revenue is up 4% at GBP 1.2 billion, adjusted for Beauty. And adjusted operating profit is up 8% at GBP 178 million. We also confirm our outlook for the year.

I would like to underline that we're still in the first phase of our transformation, with the majority of change still ahead of us. At this stage, we are focused on shifting perception and generating brand heat.

With that, I will hand over to Julie to take you through the numbers.

Julie Brown - *Burberry Group plc - CFO, COO & Director*

So thank you, Marco. Good morning, ladies and gentlemen. So this time last year, we set out our vision to firmly establish Burberry in luxury fashion. And as we said at the time, this is a 2-phased plan. The first phase is a period of transition as we change our product, rationalize our distribution and invest to re-energize the brand. We believe this period of investment is necessary to enable us to deliver long-term sustainable value.

The second phase is where we will complete our transformation and accelerate growth. We're now at the point where we've relaunched the brand, we've shown the new runway product, but the consistency of brand positioning and product will only build through the next financial year. In the half, we have built strong foundations to bring Riccardo's product successfully to customers starting in February, and we focused on operational execution and continuing cost discipline.

Turning to the summary financials. During this presentation, unless otherwise stated, I'll refer to growth at constant exchange rates. So revenue was GBP 1.2 billion, down 2%, but adjusting for the Beauty deal, revenue was up 4%. Adjusted operating profit was GBP 178 million, up 8%, and our operating margin improved by 150 basis points at CER. Adjusted diluted EPS was up 14%, positively impacted by tax and share repurchases. Exchange was a headwind as guided, and adjusted EPS at reported rates was up 2%. Free cash generation was lower this year than last at GBP 46 million due to a working capital outflow, primarily due to inventory, which I will return to later. And finally, we announced that the interim dividend of 11p, in line with last year.

Now looking at revenue in a bit more detail. Retail sales grew 2% with comparable store sales growth up 3% in half 1 with improved footfall trends. The impact of space was minus 1% on retail. We continue to evolve our store network to align with our luxury positioning, closing a net 7 stores in the period and opening our new Dubai flagship and also a store in Shin Kong Place in China. Wholesale sales grew 10%, excluding Beauty. More than 1/2 of the growth resulted from an outperformance of our Asian business as the traveling Chinese switch their spending out of Europe and into Asian destinations, where Travel Retail is operated through our wholesale channel. Wholesale in EMEIA grew by mid-single-digit percentage, with the benefit of new luxury accounts more than offsetting the headwinds from the closure of nonluxury doors. And U.S. wholesale declined as we began to close a small number of nonluxury doors in the half. Finally, licensing grew significantly, benefiting from Beauty transitioning to a license model, bringing total business growth to 4%, excluding Beauty wholesale.

Now I wanted to give you a bit more color on the retail comp store sales growth by region. So in Asia Pac, comparable sales grew mid-single digits. Japan and South Asia Pac were up mid-single digits. Korea continue to grow high single digit, supported by strong tourist spend. And Mainland China was up low single-digit comp. Globally, the Chinese consumer, our largest nationality, grew by low single-digit percentage. In EMEIA, comp sales were unchanged, with reduced visitors impacting EMEIA in our retail business. And finally, comparable store sales growth in America was mid-single digits. Retail trends in the U.S. were consistent between the quarters. However, growth slowed in other countries within Americas. Product-wise, this half was a historic moment for Burberry, with Riccardo's first runway show in September. Marco will discuss the successes around this in his presentation, but I wanted to briefly touch here on the product trends we've seen across the half in retail and in wholesale combined.

So starting with accessories, which grew 2%. As you know, we're undertaking a large transformation of our leather goods business to focus on a more elevated product. The Belt Bag, our first solid, lavish style from the new team, launched in March. And during the first half, we've been adding new styles to our assortment. We are encouraged by the early response, which in our mainline stores are overindexing with local customers and customers that are new to the Burberry brand. However, the overall performance in the category has been impacted by our older styles.

In apparel, our women's business grew 3%, and men's grew 6% in the period. We saw continued strength in tops and trousers and skirts as we now offer a full look to our customers. In outerwear, the Car Coat outperformed, while customers responded well to our refreshed quilted jackets.

This slide shows the major components of our income statement. Gross margin was 67.6%, down 160 bps due to a significant foreign exchange headwind. At constant currency, the gross margin was broadly stable, with the benefit from Beauty being offset by growth in wholesale and the move towards fashion. Adjusted operating profit grew 8% at CER, minus 4% reported. And the operating margin was stable at reported rates at 14.6%, but I'll return to the underlying change in margin later.

Adjusted operating items were GBP 5 million due to the restructuring charges from our cost-saving program, and the details of this are in the Appendix. Adjusted earnings per share growth was ahead of profit due to 100 basis point improvement in our effective tax rate and the accretive impacts of our buyback.

So let me summarize the improvement in our margin in more depth. Operating margin was 16.1% at CER, but 14.6% at reported rates, so this represents an underlying improvement of 150 basis points for 3 major reasons. The first and the single largest contributor was our cost-saving program, which delivered incremental savings of GBP 15 million, bringing our cumulative benefits now to GBP 80 million. Secondly, we had the beneficial impact from the phasing of marketing and depreciation charges between the halves. Investments were targeted towards the September brand relaunch and will accelerate in half 2 to support festive and Riccardo's product entering our stores from February. And finally, the conversion of Beauty into a licensed model had a minor benefit on the operating margin. These benefits more than offset inflationary pressures and strategic investments in our business.

Now I'd like to give a holistic view on progress in our cost-efficiency program. With cumulative savings of GBP 80 million, we are now on track to deliver GBP 100 million by the end of this year, and we're now 2/3 of the way through our total commitment to deliver GBP 120 million of annualized savings by full year '20. The 2 largest drivers of the program are simplification and efficiency and commercial procurement savings. We've already delivered around 70% of total efficiency savings, and the key unlock here was the opening of a shared service center in Leeds just over a year ago. This center now encompasses around 340 roles operating across 5 major functions, and we've appointed global process owners to focus on driving efficiency through Lean Six Sigma.

In our supply chain, in omnichannel, we've upgraded our fulfillment methods for burberry.com, driving optimized order routing and preparing for enhanced luxury services such as same-day delivery. And for the B Series, we've delivered the vast majority of product to our customers within 24 hours of the order. In procurement, we're now 60% of the way through our ambition. Over the last 6 months, we've had notable success in the delivery of cost reductions in insurance, in media and application management.

Now I would like to return to cash. This slide shows the movements between our adjusted operating profit and our free cash flow. The largest outflow of just over GBP 90 million resulted from working capital. The biggest driver of this was inventory, which grew 11% CER. And as you would expect, this reflects our ongoing product transition as well as the shift in our business towards fashion, which by nature involves longer lead times and the normal seasonal build of inventory ahead of the festive period. CapEx in the half of GBP 51 million was similar to last year, and cash conversion at 48% compares with the median over the last 5 years of 59%.

Turning to our net cash position and the application of our capital allocation framework. We generated free cash of GBP 97 million before CapEx. In the half year, the main outflows were CapEx and returning GBP 276 million to shareholders by way of our dividend and buyback. We also had a GBP 14 million outflow relating to strategic investments, largely associated with the acquisition of our leather goods center in Italy. In total, our net cash at September '18 was GBP 0.6 billion, broadly stable with our position last September, and on a lease-adjusted basis, net debt of GBP 0.6 billion.

Finally, turning to guidance. Whilst mindful of the transition the business is undertaking in the second half and a phased introduction of new product, there is no change to our guidance of broadly stable revenue and operating margin at CER. However, there are some updates to the moving parts. In wholesale, given the stronger-than-anticipated performance in half 1, we now expect wholesale revenues for the full year to grow by a mid-single-digit percentage. For capital expenditure, we expect full year CapEx to be GBP 150 million to GBP 160 million, lower than we originally guided due to phasing between the years.

And regarding foreign exchange, as usual, we've run our model at the end of October spot rates. This implied a benefit of GBP 10 million on revenue and a headwind of GBP 25 million on profit compared to the prior year. And in terms of sensitivity, if we take last year's operating profit as the base, a 5% movement in sterling equates to approximately a GBP 45 million movement in our operating profit.

To conclude, our journey to transform and reposition the brand is underway. Our current financial performance does not yet reflect these changes with the product transition starting in February and the brand relaunch having only just begun. We are confident in our brand transformation strategy, particularly given the encouraging lead indicators which we're seeing.

And I'm now pleased to hand over to Marco.

Marco Gobbetti - *Burberry Group plc - CEO & Executive Director*

Thank you, Julie. Now I'd like to turn to our strategy. As Julie said, we're 6 months into our journey to transform Burberry. It's early days, but I'm pleased to reiterate our expectations have not changed. At this stage, our strategic focus is on igniting brand heat, starting with influencers and key opinion leaders, which will cascade to all consumers. And I'm pleased that we have started to make some good progress on this front. But as you know, shifting consumer perception, product transition and transforming our distribution take time. As previously guided, we expect to see a real acceleration in this business in the second phase of our plan.

As you see here, I've previously shared with you the significant effort we're putting into strengthening the foundations of the transformation. Today, I want to focus on 4 areas where we've really advanced our strategic agenda over the past few months: Our brand relaunch, wholesale, product and responsibility.

With Riccardo in place, we relaunched the brand. We unveiled a new logo for the first time in 20 years, evoking the new spirit, mood and personality of the brand. We refreshed our monogram, a staple of all great fashion houses, inspired by our heritage and created from our founder, Thomas Burberry's initials. And we made sure people saw it. We flooded key markets in surprising, engaging, impactful ways. First, we targeted the cities hosting major fashion weeks: London, New York, Paris and Milan. We also focused on cities with influential luxury consumers, including Shanghai, Seoul and Hong Kong. We rolled out our new branding in image-driving print and digital media. And while our direct reach across all of these activations was over 60 million consumers, this was nothing compared to the amplification on social media through images shared by press, influencers, consumers and our own channels. This all culminated in the reveal of Riccardo's first collection, Kingdom, at a new show venue in London. Invitations were focused on fashion insiders and influencers, keeping the spotlight completely on the collection. This collection celebrated Britishness and brought to life Burberry through Riccardo's eyes. One of the things he loves about Britishness is its contradictions, the tension between classic and fashion, tradition and rebellion, the punk and the Queen. Street influencers play just as important a role as calls of luxury and sophistication. Riccardo's vision is a Burberry that is as much for the young as for the older. He talks about inclusivity and multigenerational dressing from club kids to aristocracy, mothers and daughters, fathers and sons. There's an attitude and a spirit that is reverent but renegade. This also applies to the way we're selling in our new go-to-market model of frequent product drops. In conjunction with the show, we launched the B Series, drops of exclusive limited-edition product designed by Riccardo and sold in a completely new way. To purchase, customers buy directly through our social pages on Instagram, WeChat, LINE and Kakao. The B Series has now become a monthly, a new monthly cadence for us, and we will continue to drop product on the 17th of every month, Riccardo's luckiest number, with a strong social focus. To maintain heat at this stage, we will keep the drops very limited and not aim to drive significant volumes.

We also began to translate the new creative vision in some of our stores with the reimagining of Regent Street and the refresh of Bond Street. You can see some of the beautiful changes here. Burberry has more than 1 kilometer of windows around the world, and we completely transform this too with a new architectural and visual concept.

The world's top influencers have engaged with our relaunch. For instance, 3 of the 5 most followed accounts on Instagram, all with more than 100 million followers wore or endorsed Burberry, from Beyoncé wearing a custom design, to Rihanna, who, as you see, was one of the first people in the world to wear the TV product. We believe these are encouraging indicators that engagement from influencers is starting to pick up.

The press response has also been very positive. The buzz around our show and the logo and monogram change generated thousands of articles from a broad range of titles globally. In particular, the new social selling mechanic for the B Series was praised for its relevance and appeal to younger fashion customers.

Heat with influencers and press also began to spread to consumers, which, together with a more effective use of our social media channels, resulted in much higher engagement. Compared to last September, the number of mentions of our brand on Instagram has seen triple-digit growth. More importantly, consumers' engagement has also increased versus Q1 across all key social platforms, particularly on Instagram and WeChat where we have focused our activity. The show, in particular, drew a significant amount of interest. Recent rankings from vogue.com, shown here, and the Financial Times, which focused on industry insiders and influencers, indicated that Burberry show was the second-most viewed collection this season, appearing in the top 10 of both rankings for the first time this year.

The launch of the B Series completely exceeded our expectations. It generated incredible brand heat and engagement, which was exactly our intention. Influencer response to the drops was overwhelming, and we're still receiving many requests for TV products. Key items sold out very quickly. The latest B Series in October, for instance, completely sold out within a matter of hours as consumers became used to buying from us in this new way.

We also saw that compared to our February capsule, the B Series attracted many new and young customers to the brand. One things -- one of the things that I'm most pleased about is the response from the Chinese consumer. In China, where consumers are already used to purchasing on social platforms, our surprise drop in September sold out in a few hours, and the latest drop in October sold out in less than one hour. In the lead up to

Singles' Day, we also recently launched an exclusive piece from Riccardo's collection with Tmall, the scarf you see here, which completely sold out and was highly oversubscribed.

Lastly, the brand relaunch played an important part in reenergizing our stores, where we saw crowds form to watch the show live, you can see an example here from Montenapoleone, queues at Regent Street, as people lined up to be the first to buy our new product, and double-digit uplift in traffic for our Thomas Burberry monogram-wrapped locations. All of these activity resulted in a positive shift in consumer sentiment, which you can see here reflected in social media. It's now our job to ensure this change is sustained and radiates to the wider luxury consumer.

I also wanted to highlight some of the excellent progress we've been making around wholesale. Firstly, we've had a great response to Riccardo's collection, with consistently positive support throughout the direction of the collection and enthusiasm for its newness, breadth and excitement. In EMEIA for example, spend from partners who typically buy our September runway collection has more than doubled this season. And in the U.S., our largest luxury accounts have significantly increased their bookings of runway product. While these are extremely encouraging indicators, it is important to note that the runway market remains a small proportion of the overall wholesale order book. And as this was the first opportunity our partners had to buy the new product, they were exceptionally motivated.

More broadly, our structural evolution of wholesale is also well underway. We've completed the majority, the vast majority of our negotiations, made good progress in securing better location within our existing partners and built new relationships with several influential fashion destinations, such as Barneys, where this image is from. In EMEIA, we continue to evolve our wholesale mix to our luxury and have seen double-digit growth in a number of luxury wholesale accounts visiting the showroom versus last year. In the U.S., by the end of next financial year, our wholesale presence will have completely transitioned to luxury, a critical part of our strategy. However, as this chart shows, as we transition, we will also substantially reduce the overall number of wholesale doors. This will remain a significant headwind to our numbers into next year, as reflected in our guidance.

On product, I've already mentioned the B Series. This is core to our strategy to continuously surprise and excite consumers. In addition, as you've heard, before Christmas, we'll also launch a collaboration with Vivienne Westwood, hotly anticipated by press and consumers. This is more than just doing something new. Vivienne's unique representation of British style is unrivaled and an unexpected and exciting union for us.

In terms of leather goods, as Julie mentioned earlier, we continue to build our handbags architecture and deliver newness, including some of the shapes you saw on the runway. We're placing an increased focus on the environment in which we display our leather goods, such as the Burberry Conservatory you can see here, which was a pop-up designed for the Belt Bag. We're also ensuring that leather goods are placed front and center in our stores. As you know, building our leather goods business will take time as we continuously improve innovation, quality and sustainability whilst integrating our new Center of Excellence.

Lastly, a word on responsibility. At Burberry, responsibility is something we believe in strongly, and it's what we mean by modern luxury. In September, we announced an end to the practice of destroying unsalable products. We also announced that we will no longer use real fur, and joined in October, the New Plastics Economy Global Commitment to transform how we use plastic in our supply chain. And last month, the Burberry Foundation launched Burberry Inspire, a 4-year initiative for 8 school in Yorkshire to examine how cultural and creative education can help young people. I'm incredibly proud that our work in these areas has been recognized externally, particularly as the leading luxury brand in the 2018 Dow Jones Sustainability Index, and we will continue to put responsibility at the heart of everything we do.

What I've shared so far shows some highlights of our progress and encouraging early results, but I want to stress that this is just the beginning. To really accelerate growth, we have a lot more to do. We need to sustain and expand our heat, no small feat, as you know. Social media is instant and therefore constantly changing. It takes continuous and engaging content to maintain our share of voice and make our initial results a pattern rather than a snapshot. And it takes time to really change consumers' perception of a brand.

We also need to transition all of our product. And this won't be complete across the network well into next year. First delivery of Riccardo's product is in February when September runway lands in stores. But as this chart shows, it won't make up a significant portion of the overall offer for some time. At this stage in our plan and until the end of the year, we're at the peak of our transition from old to new product, and we're managing this dynamically while protecting the brand. The best -- this will allow us to have the best possible presentation of Riccardo's product in our stores, starting in fall/winter next year.

Finally, in terms of retail, our major priority is to embed our new vision across our store network. We have started with Regent and Bond Street, introducing new bespoke aesthetics that are unique to each store. And we'll continue updating the rest of our network starting with flagships and key fashion cities.

As we laid out in our strategy, we also still have some work to do to rebalance our network, in line with our new brand positioning. In addition, we will continue our focus on customer service as well as training on styling and wardrobing to ensure our store staff are ready for the new product. I'm pleased with the initial results of our retail excellence program. With the pilots complete, we're now focused on rolling it out throughout the network.

Before we turn to Q&A, I would like to thank our amazing teams who have worked tirelessly to make this all happen. I've really felt the energy building in the business over the last 6 months. There's a palpable excitement for what is to come and what we can achieve together. And while we are in the midst of a major transition, I am sure that the best is ahead of us.

Now I want to leave you with some highlights of this new era.

(presentation)

Marco Gobbetti - *Burberry Group plc - CEO & Executive Director*

And now I'll open the floor for Q&A.

QUESTIONS AND ANSWERS

Charlotte Cowley - *Burberry Group plc - Former VP of IR*

Yes, so Luca, do you want to go first?

Luca Giuseppe Solca - *Exane BNP Paribas, Research Division - Head of Global Luxury Goods Research, MD & Analyst of Luxury Goods*

Luca Solca from Exane BNP Paribas. Two questions, if I may. I think you were saying in the presentation about Chinese nationals are not showing any particular inflection point, and you were talking about mid-single-digits growth in Asia Pac. I wonder if there's anything that you're seeing in China when you look at Chinese consumers even outside of China that is showing some kind of development, whether they're buying more at home or abroad, and whether you're getting more traction with younger consumers in comparison to the past, or whether you're getting more traction in Tier-1 cities in comparison to deeper into the country? The second point that I would really like to focus on is your ambitions in leather goods and in handbags in particular. You've been saying that it is going to take time to build the handbags architecture to your satisfaction. Could you help us understand a bit more where you're driving to? And whether upgrading of the price position of the brand is indispensable in your view? There seems to be a significant gap between where Burberry is in handbags today and where other brands like Gucci or Prada are at the moment. Are you envisaging that a price upgrade is indispensable in order for you to succeed in this category? Or could there be a position for Burberry at a slightly lower price point and still be a success?

Marco Gobbetti - *Burberry Group plc - CEO & Executive Director*

You want to start with China?

Julie Brown - *Burberry Group plc - CFO, COO & Director*

China, yes. So in terms of the Chinese, as we mentioned, we see no change globally with the Chinese. So we've seen low single-digit growth in both quarters and absolutely no change for the half. What we have seen though is the patterns of consumption have definitely changed, and they've certainly moved regions. So post-Brexit, we have a lot more Chinese focused on buying in Europe and in particular in the U.K. But what we found now more recently is the consumption has moved much more back towards Asia. So in particular, we've seen an uptick in Hong Kong. We saw an uptick in Korea. And as you know, in our Korea business, if they shop in duty free, it goes into the wholesale business. So definitely, a pattern of movement across the world, but very stable trend overall. In terms of our recent product drops, both the drops we did around the fashion show and also the B Series, we found amazing traction with the Chinese consumer. And we, in particular, found that we were attracting new consumers to the brand and younger consumers in addition. In terms of the Chinese, the second one we did sold out within a few hours. And the third one was made at a very unsociable time in China, so it was going live at like 1 a.m., but even so, people were waiting for the drop and the sales result was phenomenal, sold out within an hour. I think what we've also been very focused on doing is ensuring when we've been doing the social drops, we've been very focused on partnering with our partners and using WeChat and using the way that the Chinese prefer to buy, so using the mobile app, using social, the social channels makes a big impact. So thank you.

Marco Gobbetti - *Burberry Group plc - CEO & Executive Director*

Your second question was on leather goods, on handbags in particular. And our ambition in handbags has not changed. We believe that this is going to be a very important category for us. We continue to work on the architecture of our handbag offer. As I said, this is a multi-season project. It's not a 1 or 2 season project. And in terms of the price positioning, I confirm that our ambition is to reposition our offer, but still, I think that we want to be positioned in a very competitive price zone. So as I said last time, I think there is space for us to be slightly below some of our peers in the, let's say, in the top of our offer. I want us to maintain an articulated breadth of prices with an entry price, a core area of prices and then a more elevated price range. This remains our ambition. And I think that already in the first new things that we have done prerunway and in the runway, I think that, that is being confirmed. Helen?

Charlotte Cowley - *Burberry Group plc - Former VP of IR*

Helen?

Helen Michelle Brand - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst*

Helen Brand from UBS. A couple of questions on the numbers, maybe Julie first. Could you just confirm what the underlying cost inflation was in H1 on OpEx, excluding Beauty? And how we should think about that for the full year? And also perhaps midterm, whether that mid-single-digit OpEx inflation still holds? And then just on the gross margin, obviously, some impact from effects in H1, lots of moving parts. As we go into H2, we perhaps might have some lower inventory provisions year-over-year, obviously FX still a headwind, so how should we think about the gross margin pressure into H2? And then perhaps one for Marco, I think you've recently lost your Head of Asia, Pascal, who was obviously quite influential in the business over a long period of time and had also been running with the Japan rollout, which I don't think we've heard too much about the recently. So I'm just wondering if you could talk a bit about your management in Asia and how we should think about Japan as we move away from the license business?

Julie Brown - *Burberry Group plc - CFO, COO & Director*

Okay. So can you hear us okay? We just want to check the microphones. I'll lift it up a little bit. Or maybe I can't. Is the sound all right? Yes. We just have to lean forward, I think, to make sure the microphone picks it up. In terms of cost inflation, first of all, then I'll take the gross margin, so if you strip out the cost savings and Beauty, then the underlying OpEx inflation in the first half was 1%. We're expecting that to be running at around 3% for the full year. As we mentioned, there are some phasing differences in the flow of OpEx through the 2 halves, one relates to depreciation because we've guided CapEx for the full year of GBP 150 million to GBP 160 million and we spent GBP 51 million in the first half, so there is a slower rate of depreciation coming from this spend and the prior year, or the prior years. And then the second factor is, as you've seen from Marco's presentation, we had reserved some of our marketing firepower for the show, which obviously came in September. And again, we will ramp up the marketing spend in the second half to support festive and to support Riccardo's product going into our stores. So hence, you've got this phasing difference between the 2 halves. Net-net, around 3% inflation the for full year. And the cost-saving program, which will deliver cumulative GBP 100 million by this year is offsetting, really, that inflationary factor. Beauty in the first half spend is not as significant as you might think, because we had already started to tail down the Beauty spend because we were handing over the license to Coty. In terms of the gross margin, as you say, there are so many moving parts in the gross margin. I don't want to go into too much detail in this room. In terms of the main features, in the first half, the vast majority of the fall in the gross margin was exchange. So the margin, gross margin was broadly similar if you exclude the impact of exchange, which was most of the drop. In terms of the elements within that, we had a benefit from Beauty transitioning from wholesale to license. But we've also had some offsetting headwinds just in terms of the wholesale beat comes in at a lower gross margin, so you've obviously got that effect going on. And then the third factor is as we move towards fashion, and particularly as we build our leather goods business, until those production levels are at a higher level, they're coming in at a lower gross margin. So we've had some pressure in the leather goods business on margin as a consequence, and again, as I mentioned, fashion. Inventory provisions, we made some specific inventory provisions. We've got a normal provisioning policy based on the aging of the stock. No change to that whatsoever. We made some specific provisions last year that totaled GBP 14 million on specific line items. And then we've done exactly the same review this half year, and we've increased inventory provisions by further GBP 10 million in the half year. We don't anticipate that moving significantly now. The inventory, although it's at a higher level, is largely current inventory. So we will manage that through our usual channels. In terms of underlying gross margin, there will be some pressure in the second half because some of the things I mentioned in the first will continue such as the pressure from fashion, some of the pressure from leather goods will continue in the second half, so we would -- and we would expect some negative exchange effects, not as serious as the first, but certainly, moving also into the second. Okay.

Marco Gobbetti - *Burberry Group plc - CEO & Executive Director*

Regarding the second part of your question, Asia. We had announced and we put in place the evolution of our commercial organization, and that meant the phasing out of the regional structure that was covering Asia and the creation of 4 regions that completed the 6 regions, including EMEIA and the Americas, will now report directly to Gavin Haig, who's here with us and who started with us in June, I think, Gavin? And therefore, Pascal's transition had been planned within -- in this process and was really a normal transition from one organization model to another one. And so I think now, we have very balanced commercial model with a lead here at the center and with strong regional presidents on each areas. As far as Japan is concerned, I think Japan still remains for us an opportunity and a priority. I think we have a new team in place there since about a year. I think there is a lot of development that is going on in Japan. We have a lot of opportunities, greater interest and excitement around the new creative vision and brand repositioning. So frankly, I think that Japan is going to be quite a good driver for us over the next couple of years. Because we have some opportunity also in terms of distribution, it's one of the areas where perhaps we are or we were under-distributed, but we are catching up very quickly.

Charlotte Cowley - *Burberry Group plc - Former VP of IR*

Elena?

Elena Mariani - *Morgan Stanley, Research Division - VP*

Elena Mariani from Morgan Stanley. A couple of questions from me. If we leave for 1 second the restructuring aside and you think about the top line and the brand heat that you're seeing after the first product drops, do you feel more confident on the potential like-for-like reacceleration going into next year assuming that market conditions remain pretty stable? So I just want to understand whether the first signs that you've had so far were exceeding your expectations or not, so talking precisely about like-for-like. And secondly, I know that there's a lot of focus on Chinese consumers, but I was also interested on the response you had from the European consumers and American consumers because I believe that they would be equally important within the context of the brand restructuring. So are you happy with the response you're seeing there, particularly in the U.S. where I think that in the past, probably the brand perception were not -- was not exactly where you wanted that to be?

Marco Gobbetti - *Burberry Group plc - CEO & Executive Director*

We're Obviously extremely pleased with the results we've had from a number of things as you've seen in the presentation. This all culminated with a presentation of the new collection and the drop. But all things combined, the new branding, the new monogram, all that campaign that went through the summer, the B drops, the B Series and the drops, all of this has definitely generated a lot of buzz and I think excitement. This was exactly the objective. Now this is going to, in our mind, is the influencers' interest and excitement is going to generate over time a very positive influence on the consumer. Now this will take a little bit of time, point number one. Point number two, as we said before, product transition is also going to take a little bit of time. So really, when you look at the delivery of the fashion show, the runway first, and then fall that needs to build up over the summer and the next fashion show, you saw in the chart that we will reach the majority of new product probably around the summer, the fall of next year. So it's from that time that we really need to look at comps and to see how the performance is going to be. Before that, I think, as we said, we're really in the middle of a very, very thick transition and major transition. We're not only transitioning creative vision, we're also elevating the brand at this time. So we're really in the middle of it. I think we really want to see the product land in the store. All the activity we're doing with the consumers to prepare them for that, to keep them engaged, excited, communication drops, one-on-ones representing them the preview of collections, there's a lot of work that is going on in retail to keep that engagement and to keep that excitement going until they can finally touch and feel the products in the stores. I think, and I'm speaking about these new products and the new vision, I think that there is equal excitement and interest across the regions. I don't see any difference. We talked about the Chinese consumer. Clearly, their reaction is very fast and very quick and very much also related to their views and habit of already buying on social media as they're doing it already on platforms. But the reaction we've had in America, from example, from buyers and press have been phenomenal. I think it has obviously helped us to speed up our negotiations and clarify also the position of the brand because, for the first time, we spoke a lot about what we wanted to do, but it didn't become clear and crystallized until they saw collections at the showroom. And so that clearly was a big factor and there was a lot of excitement. So now, as I said, I think the wholesale repositioning in America is really well, well, well underway. And in Europe, Julie also mentioned it in her speech, even in Europe, I think the reaction from multi-brands and department stores has been phenomenal. So I think we seem to be in a situation where the collections have been received very well everywhere. I don't know if you want to add anything.

Julie Brown - *Burberry Group plc - CFO, COO & Director*

I think just going to add, really, the lead indicators, Marco mentioned, wholesale is a big lead indicator, and both the U.S. response -- I mean, when you go around the U.S. and you see Burberry's position now in those large department stores, including elevated like Barneys. Barneys is very different from where we were 1 year or 2 years ago. It's completely different. So these are really important lead indicators. Marco talked about the statistics around the EMEIA, the same people buying over the 2 periods is basically doubled. What we don't want to do is people get carried away with this. The reason being that these 2 plates are moving opposite against each other. We've got really strong indicators in wholesale, but at the same time, we've got to move away from the nonluxury accounts. And the biggest financial impact of that is really going to come in the second half and into next year. So we're really dealing with the next 18 months. In particular, in the U.S., where we're going to see double-digit falls in the wholesale because of the net changes that are really biting financially now. Wholesale negotiations have been brilliantly successful, but the financials lag what's going on commercially. Yes.

Charlotte Cowley - *Burberry Group plc - Former VP of IR*

So in the front there. Zuzanna.

Zuzanna Pusz - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Zuzanna from Berenberg. I have 3 questions, please. So first of all, on the B Series. Is there any chance you could maybe mention volumes or anything? I understand it's small, but so we get an idea of how much of that actually sells within the 4 hours, or 1 hour or whatever it was. And then the second question on retail. I understand that the focus is initially on products, and obviously, it will take time before you develop your new retail concept. But, Marco, you have mentioned that the Bond Street store is being also upgraded. So I was just wondering if you could provide any update on the timing of the presentation of your new store concept for retail? And then finally, on wholesale. So really good news about the encouraging response to the runway collection. But if I remember correctly, the replenishment, so the biggest part of the business, has been present in the last couple of weeks as well in showrooms, unless I'm wrong. So is there any color you could also provide on the, well, response from wholesale to the remainder of the collection?

Julie Brown - *Burberry Group plc - CFO, COO & Director*

Okay.

Marco Gobbetti - *Burberry Group plc - CEO & Executive Director*

So should I take it?

Julie Brown - *Burberry Group plc - CFO, COO & Director*

Yes, you take it.

Marco Gobbetti - *Burberry Group plc - CEO & Executive Director*

In terms of B Series, as in anything, we won't disclose the volume that was in the B Series. What I think that Julie has already mentioned and I did in my presentation, I think the response to that has been fantastic, frankly, I think. We had a surprise drop that came just before the show that sold out very quickly. We had a drop that we wanted to be more articulated with quite a few products in there. They sold very, very well. And then we had an additional drop in October that sold out completely. Then we had a specific one for China that also sold out very quickly. So frankly, I think that -- I don't think we could expect anything different or anything more than what we have there. So really, really pleased. And as I said, B Series will continue to have as their primary objective to generate excitement and engagement with the customers. It is not about volume, okay? In terms of retail upgrades, we're very pleased with what we have done in Regent and in Bond Street. There are 2 concepts that have been thought, thinking, thinking really also about the specific store configurations and the type of furniture and layout that is in the stores. And we are really so pleased with those that we're going to do more and to upgrade more of our stores, so you will see that coming, starting in February, March and perhaps also continuing into next year. Of course, we will start to target primarily the most important cities, the flagships, the cities where we think we have the key consumer target now. And that is somehow a step into the new concept, which is going to be certainly taken into consideration, some of the ideas that we have already expressed in the stores. I think that we don't want to think about the store concept that is a fixed rule that needs to be applied to all the stores. So I think look more for something that will have agility and the capacity of changing and presenting newness over time. So I think these 2 initial concepts of refreshes are actually quite important for us as a starting point. And in terms of wholesale and your question about the offer of replenishment, we have an offer that is in the showroom at the same time, and that is both the product that is seen on the runway and all the extensions that either derived from the runway or the work that we do on our iconics seasonally. And that was part of the presentations in our showroom and is always part of our presentation in the showroom. So we wanted to isolate runway just to give you a better understanding and being capable of comparing apple to apples, but it's all done in the same way.

Charlotte Cowley - *Burberry Group plc - Former VP of IR*

Just behind. Antoine.

Antoine Belge - *HSBC, Research Division - Global of Consumer and Retail Research*

Antoine Belge, HSBC. Three questions. First of all, regarding China. So I think Julie said that up until the end of September, trends were quite strong. And it seems that, in October, probably the new products did very well. So just for a second, if we assume that maybe calendar 2019 could be a period of slower growth in China, in that context, would Burberry outperform because of the brand is in a transformation phase? Or do you think that it will hit you at a wrong time, i.e., when you maybe you would lose out versus more established brands? Second question, one of the change in the guidance is about CapEx. Does it mean -- I understand it's because of phasing. Does it mean that full year March '20, we'll see a spike in CapEx around GBP 200 million or something like that? And finally, is it possible to have an idea of the growth in constant currency from your online business in the first half? And how much online accounts, first of all, as a percentage of retail sale? And when you accumulate online sales from your third-party distributors, how much of total Burberry sales is online?

Julie Brown - *Burberry Group plc - CFO, COO & Director*

Shall I take the CapEx and the final piece in terms of -- and then if you could do the first part, yes?

Marco Gobbetti - *Burberry Group plc - CEO & Executive Director*

Yes.

Julie Brown - *Burberry Group plc - CFO, COO & Director*

Okay?

Marco Gobbetti - *Burberry Group plc - CEO & Executive Director*

I think as of today, we don't see a decline in Chinese national purchasing with us. There are movements from areas where they buy to other areas where they buy. These are primarily influenced by foreign exchange. Changes in the value of the Chinese currency will determine their preference in buying more in Europe or in Japan or in Korea. So -- and this is obviously not controllable. So right now, we're seeing some movement of Chinese back to China, buying more in China and in some areas of Asia. Honestly, it's difficult to project that for next year. In general, we think that the fundamentals with the Chinese consumers are still very strong, so we don't see really strong headwinds coming from there. As far as Burberry is concerned, next year, in any case, we will be in the midst of our transformation, in the midst of our transition from one product to the next. So as I said, until, really, fall/winter of next year, no consumer in the world will be able to really shop fully into the new product. So I think it will hit us. If there is a slowdown in China, it will hit us at the moment of transition where, in any case, our objectives are very clear during the transition phase. We want to manage this transition, prepare our stores to have the best possible offer of Riccardo's products and manage through the inventory and prepare ourselves to be in the best possible condition then. At the same time, whatever we do is always with our brand in mind because we're elevating the brand in this period, and therefore, we'll do all of that very carefully.

Julie Brown - *Burberry Group plc - CFO, COO & Director*

Okay. So if we move onto CapEx. The major change in phasing, first of all, was largely due to the office refurbishment work that was due to take place this year that's moved into next. So no other material change. So this year, we're guiding GBP 150 million to GBP 160 million. Next year, there will be a slight ramp-up, but not to the degree that you mentioned. I think we're looking at GBP 170 million to GBP 180 million next year in terms of overall spend. But obviously, we'll give that guidance with the full year results. The following 2 years, we would, as the new store concept starts to roll out, we expect that to be in place at the end of full year '20. That's when we may see GBP 190 million to just over GBP 200 million levels. So that's in terms of capital expenditure. In terms of digital, as you know, we don't split out the exact retail mainline outlet and digital split. Digital consistently outperforms our retail business and has continued to do so in the first half of the year. We've got a number of components to it: IPad, in-store, we've got dotcom and we've also got the third-party recently. We took Farfetch onboard. And that's all going very well. So Farfetch is exceeding expectations. And we've actually found the biggest growth area, as you probably would expect, is in Asia, as Asian consumers love the mobile app, so there's been a definite move as well towards the mobile app, okay?

Charlotte Cowley - *Burberry Group plc - Former VP of IR*

There's time for 2 more. So Thomas on this side.

Thomas Vincent Chauvet - *Citigroup Inc, Research Division - Head of European Luxury Goods Equity Research and Director*

Thomas Chauvet from Citi. Two questions. The first one, follow-up on the retail renovation program. Are you planning to renovate just your mainline stores of 240 or so or also refreshing concessions and outlets? And can you give us a more precise time line of how many stores per year are you planning to refurbish? And within Julie's CapEx guidance, how much for the next 5 years is dedicated to renovation? And secondly, on your apparel business, it had pretty healthy growth in the first half, but particularly the men's. Can you comment perhaps on the main segments of outerwear, casual wear, formalwear, and whether you're seeing growth differentials there? We saw at Christopher Bailey's last show in February, lots of casual wear. We saw good proportion of casual wear too, I think, at Riccardo's show in September.

Marco Gobbetti - *Burberry Group plc - CEO & Executive Director*

Okay. Shall I start with...

Julie Brown - *Burberry Group plc - CFO, COO & Director*

Renovation?

Marco Gobbetti - *Burberry Group plc - CEO & Executive Director*

Just renovations then I'll leave you CapEx and end product.

Julie Brown - *Burberry Group plc - CFO, COO & Director*

Yes.

Marco Gobbetti - *Burberry Group plc - CEO & Executive Director*

In terms of the renovations, we are targeting the stores that we consider as our key for the customer base that we are focusing on. So within that, I don't exclude that there will be also a few concessions. We are not at this stage focusing on outlets. Outlets are -- will continue to go through a physiological renovation if it's needed but out of, perhaps, age. But clearly, our focus now is on mainline stores. In terms of giving you the exact number, it's difficult to give you today that we obviously are working within a CapEx budget that we have given ourselves. That budget includes refreshes. It includes some openings, some moves, so it includes a number of variables in there. I think we have a first wave where we plan to do another 10, 12 stores right away, and then we plan to do more during the course of the year. But I'm not in a position to say exactly how many for the year.

Julie Brown - *Burberry Group plc - CFO, COO & Director*

Okay. So just in terms of the CapEx split and the store refurbishment program, which Marco just referred to, broadly, if we take the sort of office refurbishments out of the equation, which can bounce around a little bit, the spend on the stores is approximately half the total CapEx. The remainder is basically IT systems upgrades, investments in the omnichannel, for example, and ERP systems. But there's a large proportion of the spend is going on the stores, and in particular focus on the mainline store refreshes because it's brand enhancing in terms of image. In terms of the product split of the sales, as you mentioned or as mentioned when we did the presentation, the key areas we have been focusing on has been very much around sort of outfitting the client, so providing a total look for whether it be male or female. Obviously, you've seen that with Riccardo's looks as well. And this is the part of the business that was initiated about 12 months ago and has been doing very well, so the tops, the bottoms, the trousers, the look has gone extremely well. We're looking at double-digit, sizable double-digit growth in those areas. In terms of outerwear and rainwear, it's been more subdued partly because what we've seen in that category is a mixed performance. We've had outperformance of the Car Coat, for example. But as fashion has moved more toward single-breasted styles, it's put more pressure on the traditional trench. And that's the composition of what's happened in those categories.

Charlotte Cowley - *Burberry Group plc - Former VP of IR*

One more. So, Rogerio.

Rogerio Fujimori - *RBC Capital Markets, LLC, Research Division - Analyst*

I have 2 questions for Marco, I think one on your existing customer base. I was just wondering if you could talk a little bit about customer retention rates, recent trends, how do they compare to plan and what should we expect next year? And the second, any thoughts on retail KPIs? I think last full year results, you flagged your increased conversion. So interested in what's happening with, yes, traffic conversion, particularly average basket.

Marco Gobbetti - *Burberry Group plc - CEO & Executive Director*

In terms of the existing customer base, I think we -- the teams are doing a great job in retaining our existing customer base. We have a lot of activity that is dedicated to that. It's a focused part of our retail excellence program, and we're seeing some very good results from that. So we're very pleased with the retention of our existing customers. That is what is going to carry us through the transition, so we pay a lot, a lot of effort in that because the transition and the new product and the new vision by Riccardo in all we're doing is also very much oriented at recruiting new customers. So -- but as I said, in the meantime, we have to work very hard on our customers, and it's doing very well. In terms of retail KPIs, this, as I said before, this is a transition. So I really don't think that what we see today is necessarily very meaningful for what our future will be and whether we're successful or not. We -- I think that there is no major swing in our retail KPIs from last time. I think traffic is okay. Conversion is slightly lower than before. But all things are, and all indicators are, quite normal, I would say, in the phase like the phase where we are today. So overall, I think that our focus on retail excellence is really well on its way. And as I said, we -- the pilot stores have already -- we've already implemented this new strategy in the pilot stores. We have excellent results. Now we're in the phase of rolling it out to the whole network. So really, as I said before, to prepare our stores for the next phase when we will have all of the new products in the stores.

Okay. All right. Well, thank you very very much for coming. Thank you.

Julie Brown - *Burberry Group plc - CFO, COO & Director*

Thank you.

Marco Gobbetti - *Burberry Group plc - CEO & Executive Director*

Thank you.
