

# BURBERRY

INVESTOR PACK  
JANUARY 2018

## **OUR VISION**

**FIRMLY ESTABLISH OUR  
POSITION IN LUXURY FASHION,  
INSPIRING CUSTOMERS WITH  
OUR UNIQUE BRITISH ATTITUDE**

## BRITISH LUXURY BRAND

- Authentic British heritage
- Made in England
- Founded in 1856 by Thomas Burberry



## OVER 10,000 EMPLOYEES WORLDWIDE



## FTSE 100 MEMBER

- Ordinary shares traded in London
- ADR programme



## SUSTAINABILITY AGENDA

- Dow Jones sustainability Index member
- Principal Partner Living wage foundation
- Five year responsibility agenda



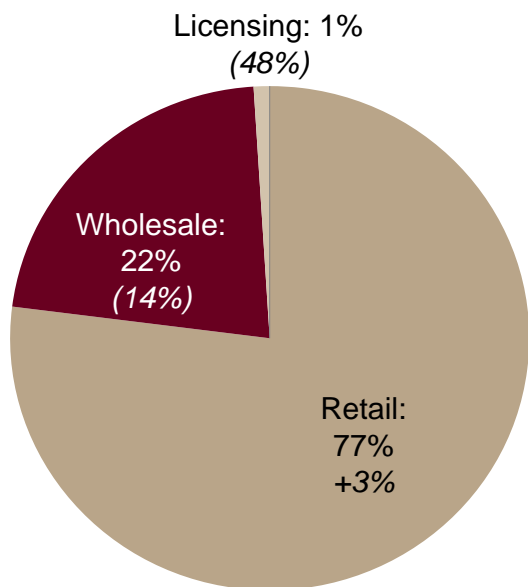
## FY 2017

- £2.8bn revenues
- £462m adj. PBT



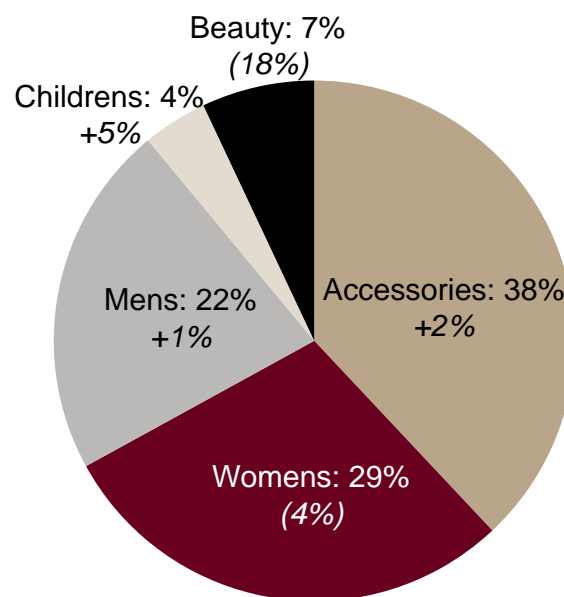
# BURBERRY IN A SNAPSHOT

## GROUP REVENUE BY CHANNEL



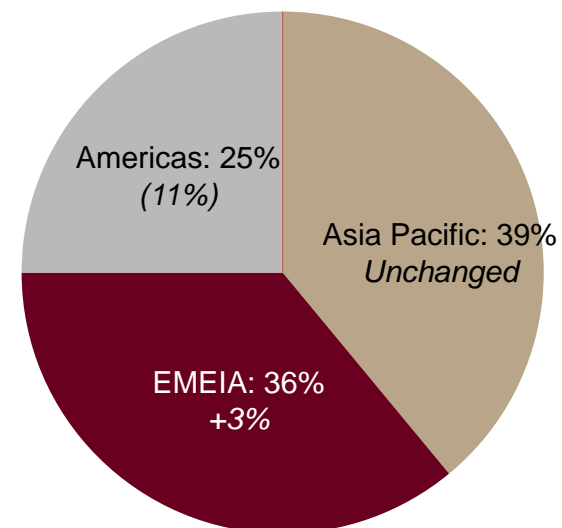
FY 2017: £2,766m

## RETAIL/WHOLESALE REVENUE BY PRODUCT



FY 2017: £2,741m

## RETAIL/WHOLESALE REVENUE BY REGION

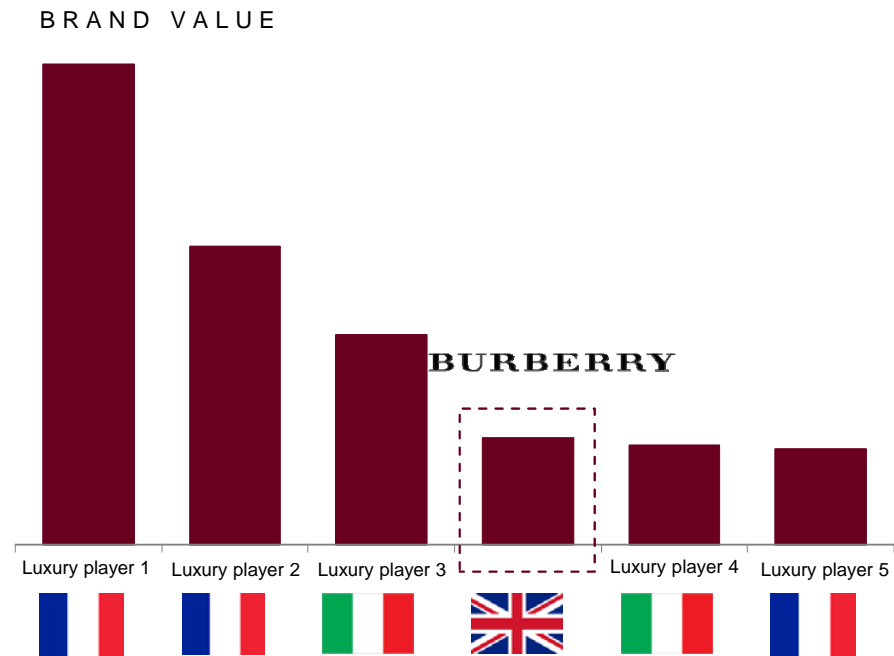


FY 2017: £2,741m

% Growth on underlying basis

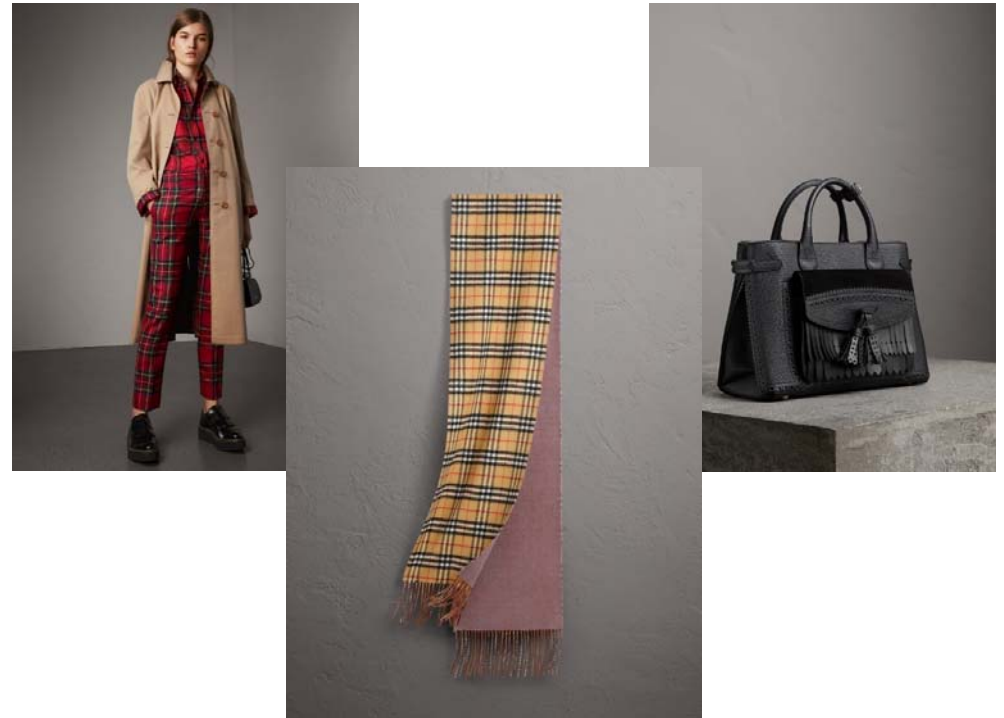
# BURBERRY IS AN ICONIC BRAND

## ONE OF THE MOST VALUABLE LUXURY BRANDS IN THE WORLD

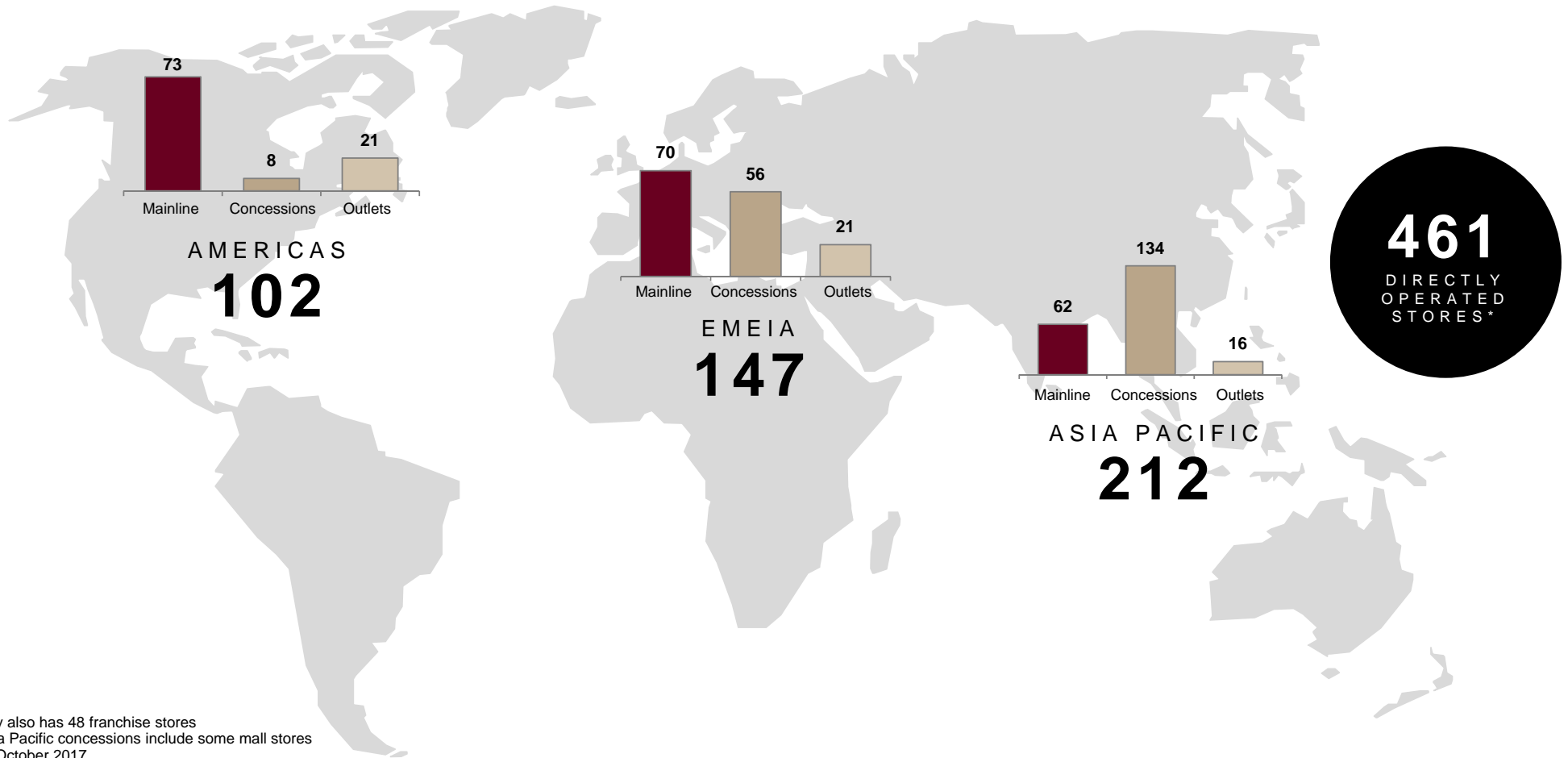


Source: Interbrand Best Global Brands 2017 Rankings

## STRENGTH ACROSS MULTIPLE CATEGORIES

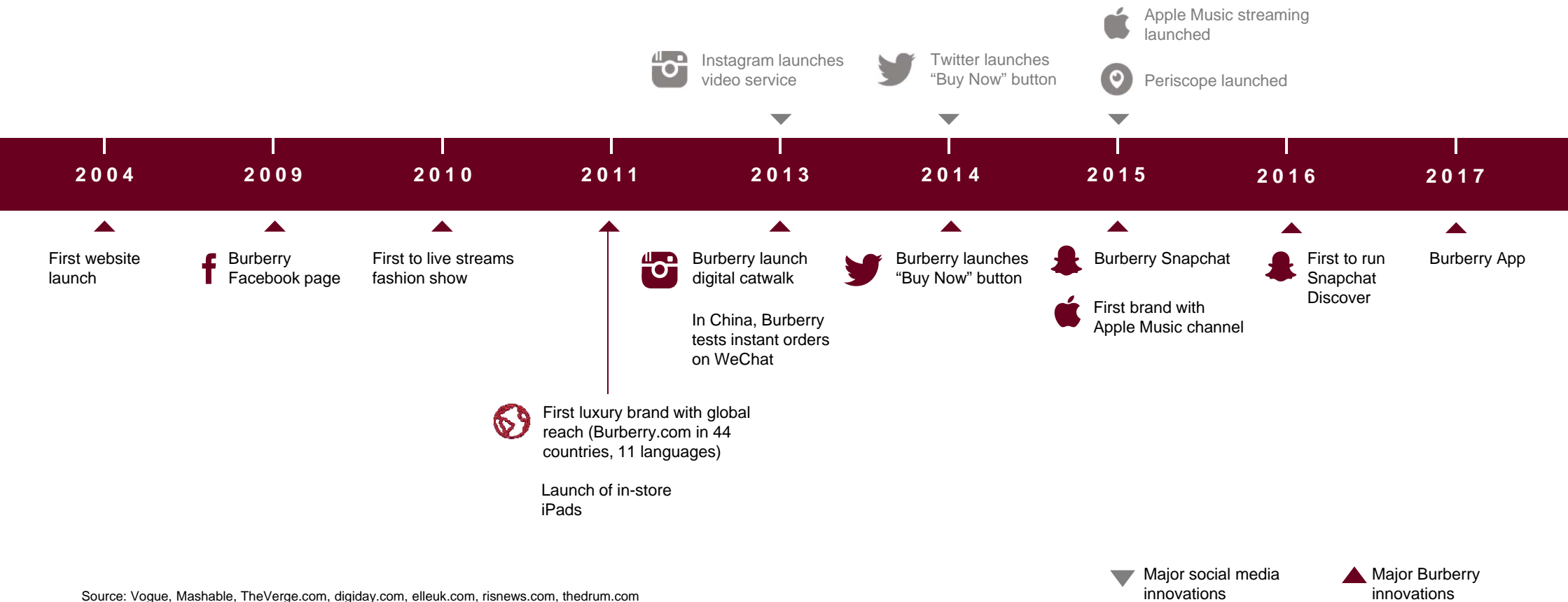


# WE HAVE AN EXTENSIVE, LUXURY DISTRIBUTION FOOTPRINT



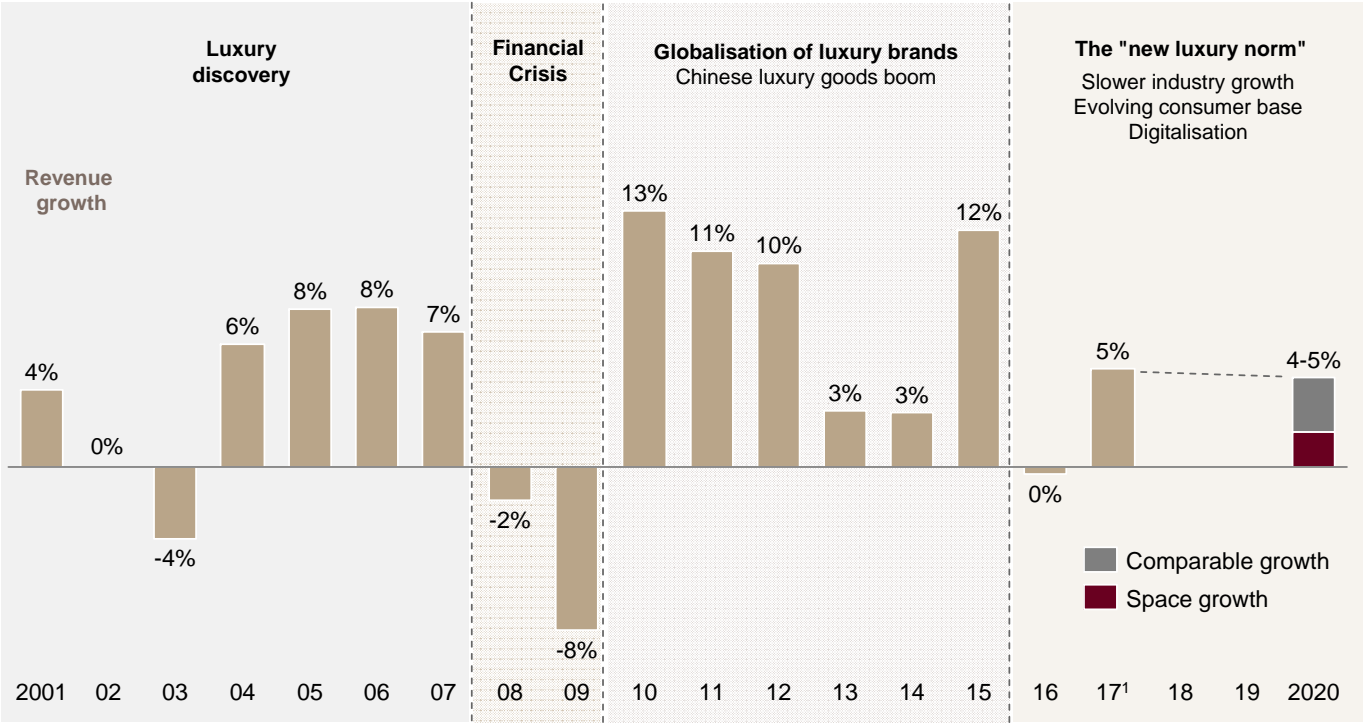
\* Burberry also has 48 franchise stores  
Note: Asia Pacific concessions include some mall stores  
As of 31 October 2017

# WE ARE THE DIGITAL INNOVATOR IN THE INDUSTRY



Source: Vogue, Mashable, TheVerge.com, digiday.com, elleuk.com, risnews.com, thedrum.com

# NOW OUR SECTOR IS CHANGING



Luxury industry growth is expected to be 4-5% in the medium-term

Future growth will be driven by

- Comp vs. space
- Volume vs. price
- Digital

Industry economics are evolving, with growth becoming more expensive than in the past

1. 16/17 growth is +5% based on current exchange rate, but +6% with constant exchange rate  
 Source: Bain luxury goods worldwide market study, October 2017



# LUXURY CUSTOMERS ARE ALSO CHANGING

FROM ...

TRADITIONAL  
LUXURY

EXCLUSIVE  
PRICE POINTS

LISTENING TO  
BRAND STORIES

BEING PART  
OF THE ELITE

STATUS

BRAND  
LOYALTY



TO ...

CASUALISATION,  
FASHION AND FUN

CREATIVITY ACROSS  
ALL CATEGORIES

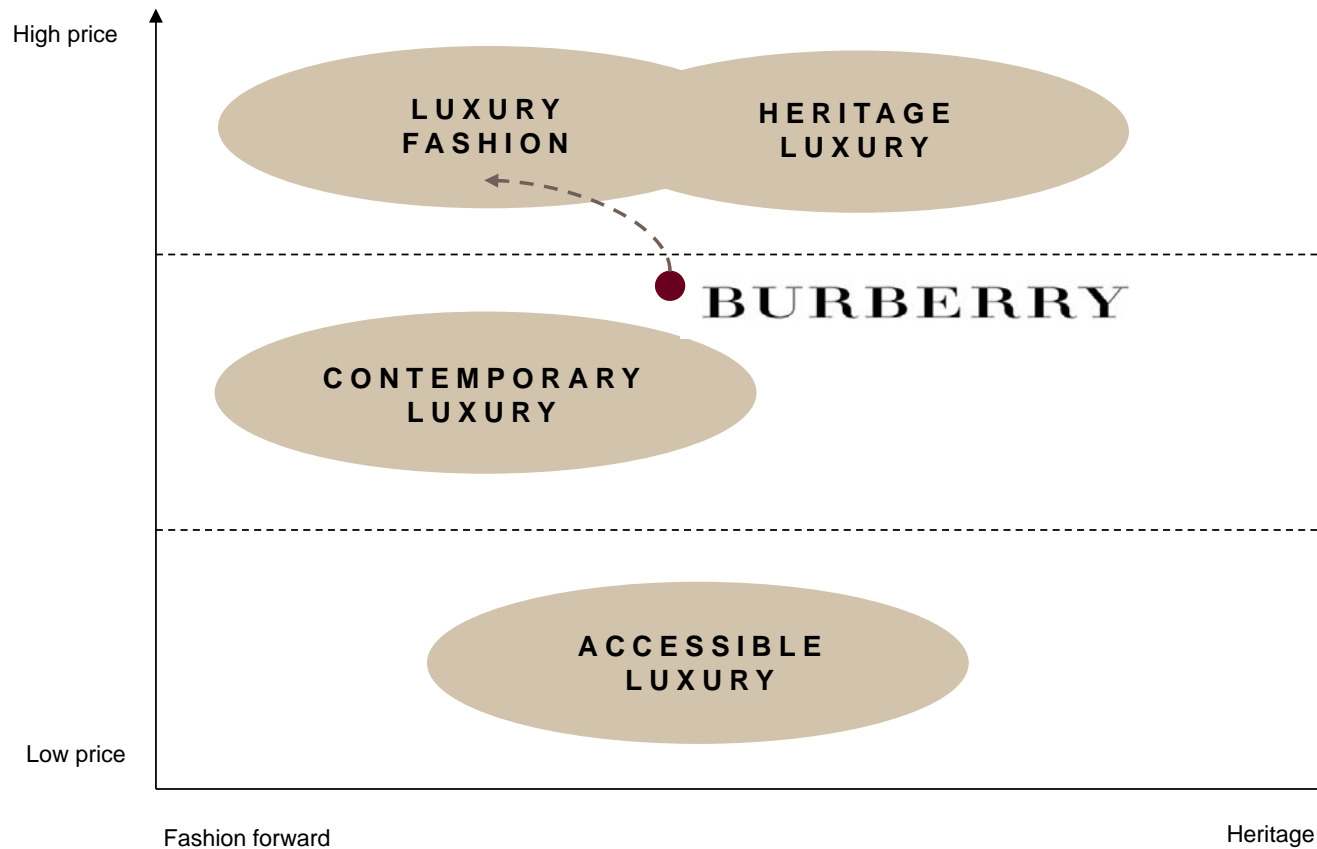
LIVING BRAND STORY  
AND EXPERIENCES

INDIVIDUAL  
SELF-EXPRESSION

SHARED VALUES

SWITCHING ACCORDING  
TO RELEVANCE

# IN THIS ENVIRONMENT, WE MUST SHARPEN OUR BRAND POSITIONING



# THE PATH TO ACHIEVE OUR VISION

RENEW  
THE PRODUCT



EVOLVE THE  
COMMUNICATION



TRANSFORM  
THE EXPERIENCE



# OUR PRODUCT STRATEGY



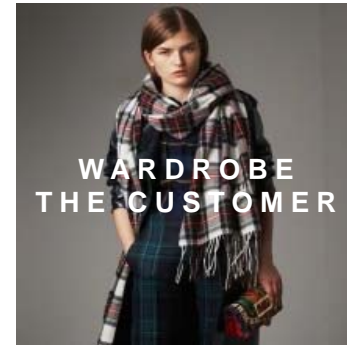
Re-invigorate our products with a constant infusion of newness and excitement



Signal significant change in design and relevance to win the luxury consumer



Multiple curated deliveries, with a direct to consumer approach



Shift from items to outfitting; drive UPT and frequency of purchase



Maintain competitive prices, and offer a breadth of price points injecting creativity across the entire range

# TAKING SHARE IN THE LEATHER GOODS MARKET



**INDUSTRY-LEADING DESIGN TEAM**

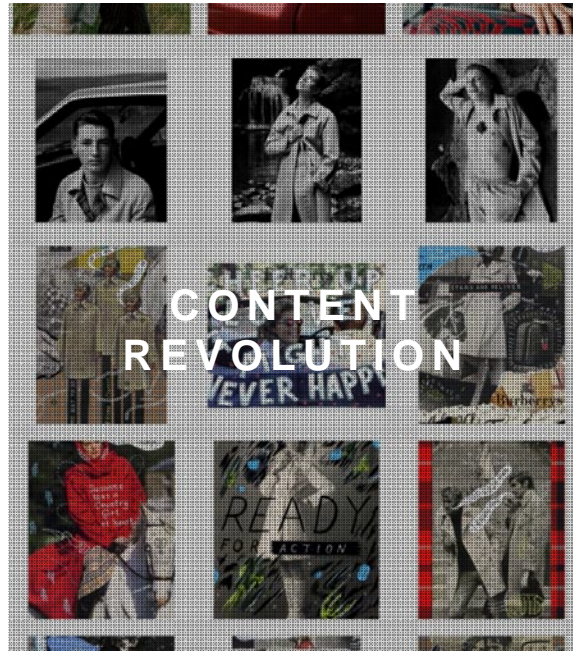
**EVOLVE THE CHARACTER OF THE BURBERRY HANDBAG**

**INCREASE PROMINENCE AND SPACE DEDICATED TO  
LEATHER GOODS IN STORES**

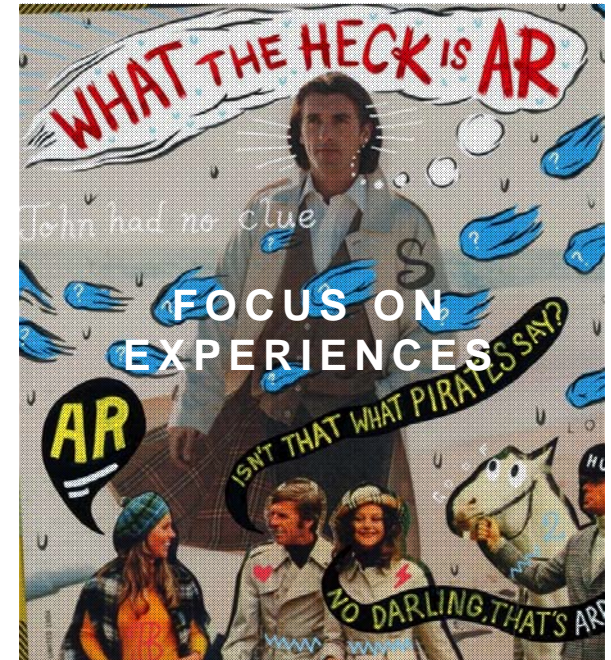
# OUR COMMUNICATION STRATEGY



Product at the heart of our communications



Reimagine our content, taking a curated, edited approach



Invest in fewer, more meaningful experiences including collaborations

# REVOLUTIONISE OUR CONTENT ACROSS TOUCHPOINTS

## THINK DIFFERENTLY ABOUT ALL CONTENT

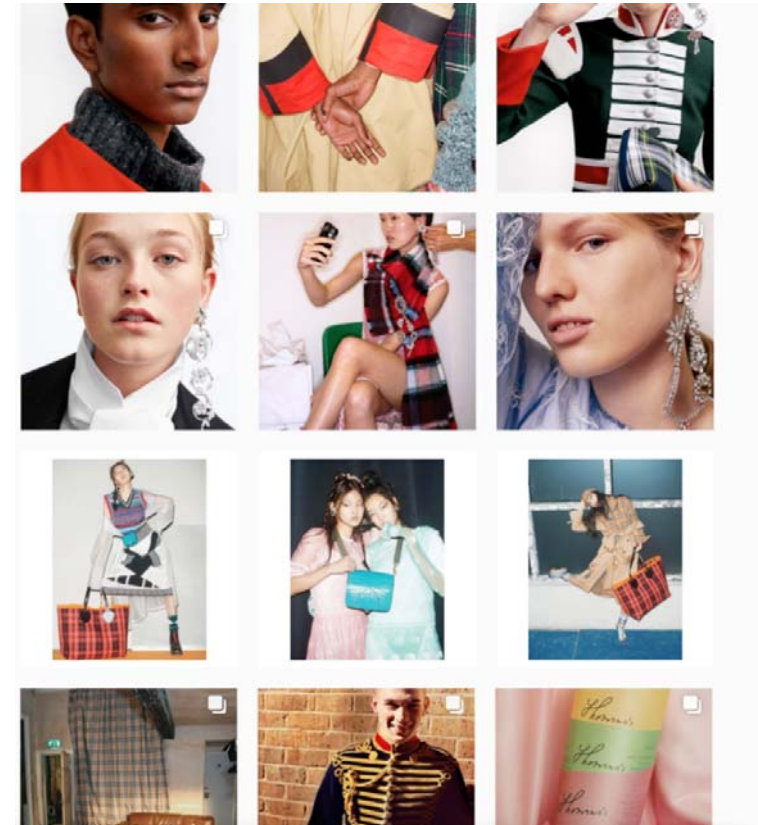
- From campaigns to what we publish across all digital channels and our own site

## UPDATE OUR CREATIVE LANGUAGE

- It will be bold, dynamic, real, compelling – and the change is underway

## ENSURE EVERYTHING IS NOT JUST RELEVANT FOR SOCIAL, BUT MADE FOR SOCIAL

- It's now the first access point to any brand



# WE WILL LEVERAGE OUR DIGITAL REACH TO CONVEY OUR NEW BRAND ENERGY

**50+M**  
FANS  
GLOBALLY

15 Platforms  
11 Languages



Facebook  
17.3M



Instagram  
10.3M



Twitter  
10.3M



Google plus  
5.3M



Line  
4.1M



Sina Weibo  
1.2M



Kakao  
331k



LinkedIn  
342k



YouTube  
309k



WeChat  
283k



Pinterest  
210k



Tumblr  
136k



Snapchat  
84k



The Net Set  
17k

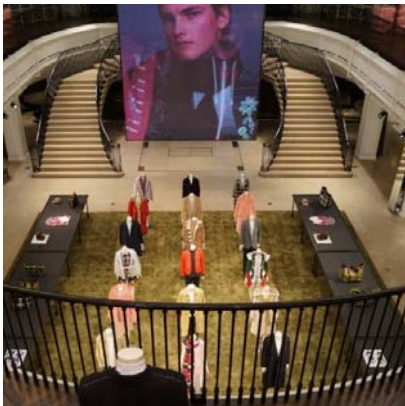


Facebook  
Messenger  
26k



# TRANSFORM THE CUSTOMER EXPERIENCE

## MAINLINE



*Rejuvenation of our mainline stores*  
*New store concept*  
*Instore experience*

## DIGITAL



*Curation*  
*Content*  
*Personalisation*  
*Omnichannel*  
*3<sup>rd</sup> Party players*

## WHOLESALE



*Image-driving accounts*  
*Special product collaborations*  
*Increase our accessories presence*  
*Grow travel retail*

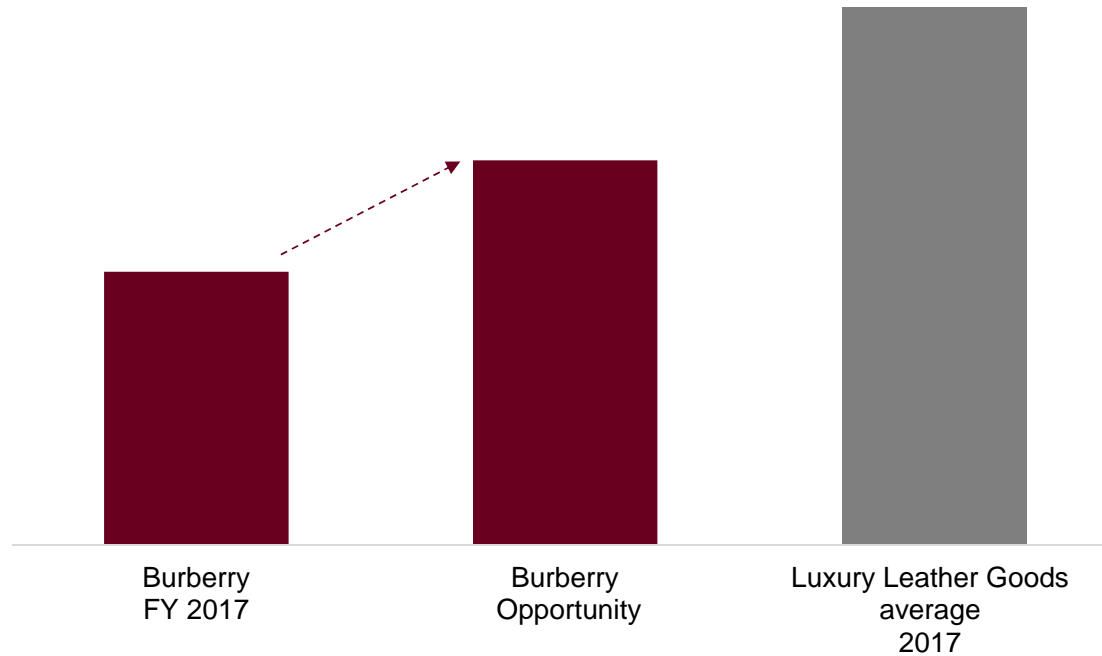
## OUTLETS



*Right-size our network, in line with our positioning*

# THESE EFFORTS WILL IMPROVE OUR RETAIL PRODUCTIVITY

**SALES DENSITY**  
£ per sq metre



NOTE: NOT TO SCALE

# DIGITAL WILL CONTINUE TO LEAD INNOVATION AND DRIVE GROWTH

## CURATION



*Highly curated product assortment and merchandising*

## CONTENT



*An editorialised website and meaningful social content*

## PERSONALISATION



*Customised, relevant and dynamic customer journeys*

## OMNICHANNEL



*Give customers flexibility in how they want to pay for and receive product*

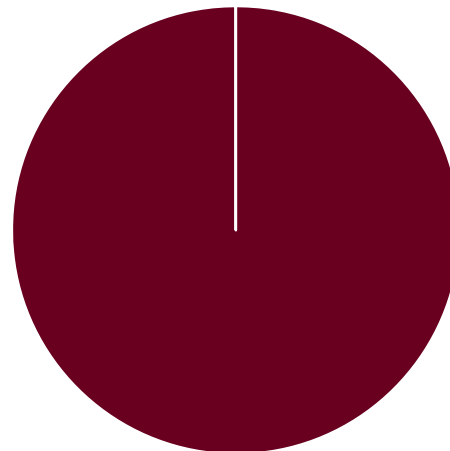
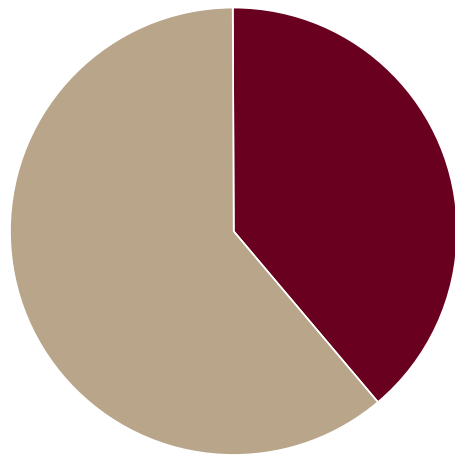
## 3RD PARTIES



*Strengthen our digital partnerships*

# ... UPGRADE AND REDUCE OUR EXPOSURE TO NON-LUXURY ACCOUNTS

US LUXURY VS. NON-LUXURY WHOLESALE  
(SHARE OF WHOLESALE DOORS)



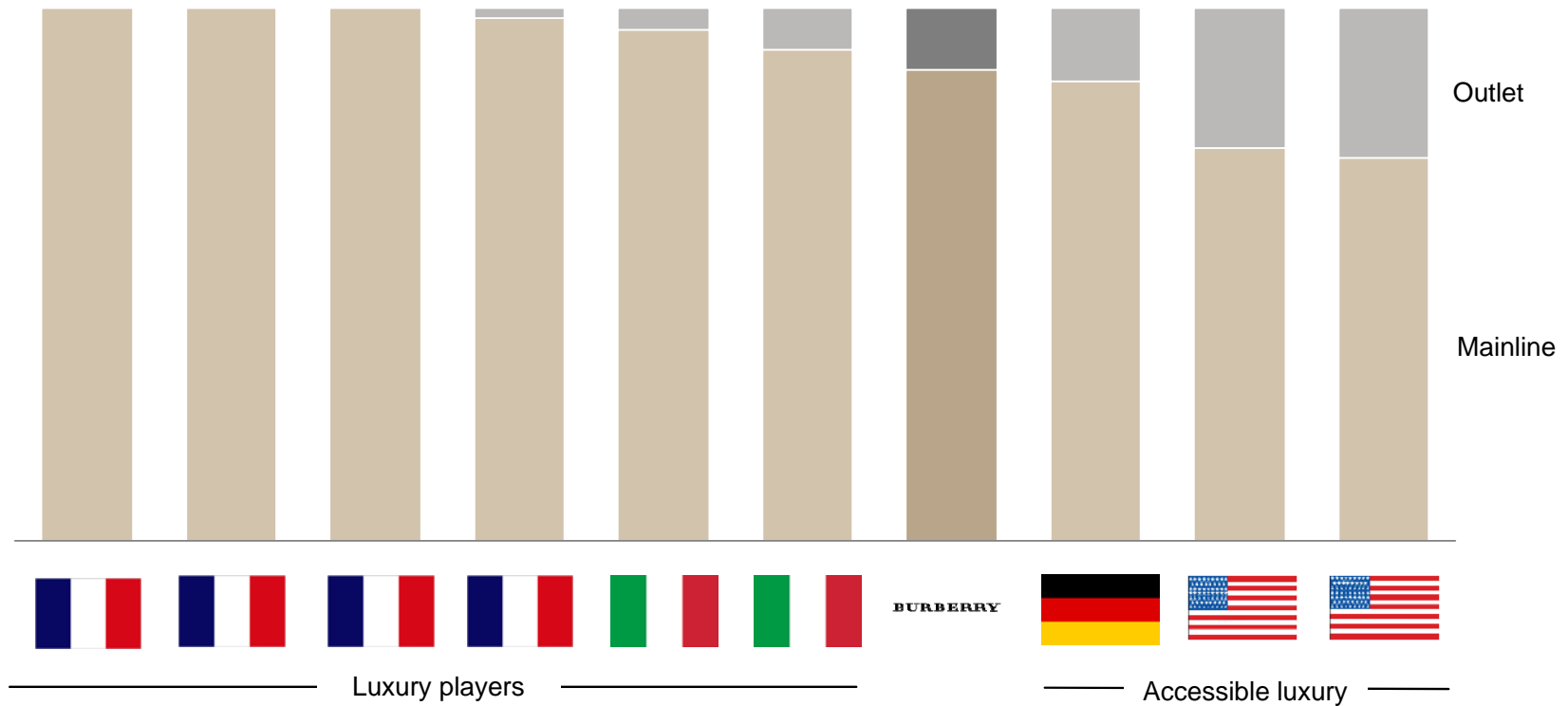
 Luxury  
 Non-luxury

To strengthen the brand experience and ensure consistency, we will:

- **Upgrade** some doors to drive image
- **Reduce** exposure where necessary to reflect the new brand positioning

# WE WILL RIGHT-SIZE OUR NETWORK, IN LINE WITH OUR POSITIONING

Outlet vs. mainline stores proportion

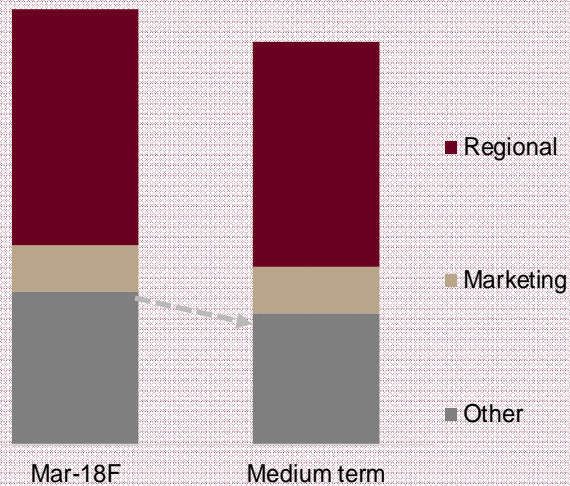


# ADJUSTED EPS GROWTH AHEAD OF REVENUE GROWTH

## COST SAVINGS

- Operating cost savings support profitability
- Focused resource re-allocation from back to front office

Operating expenses reduce as a % of sales (CER)



## OPERATING LEVERAGE

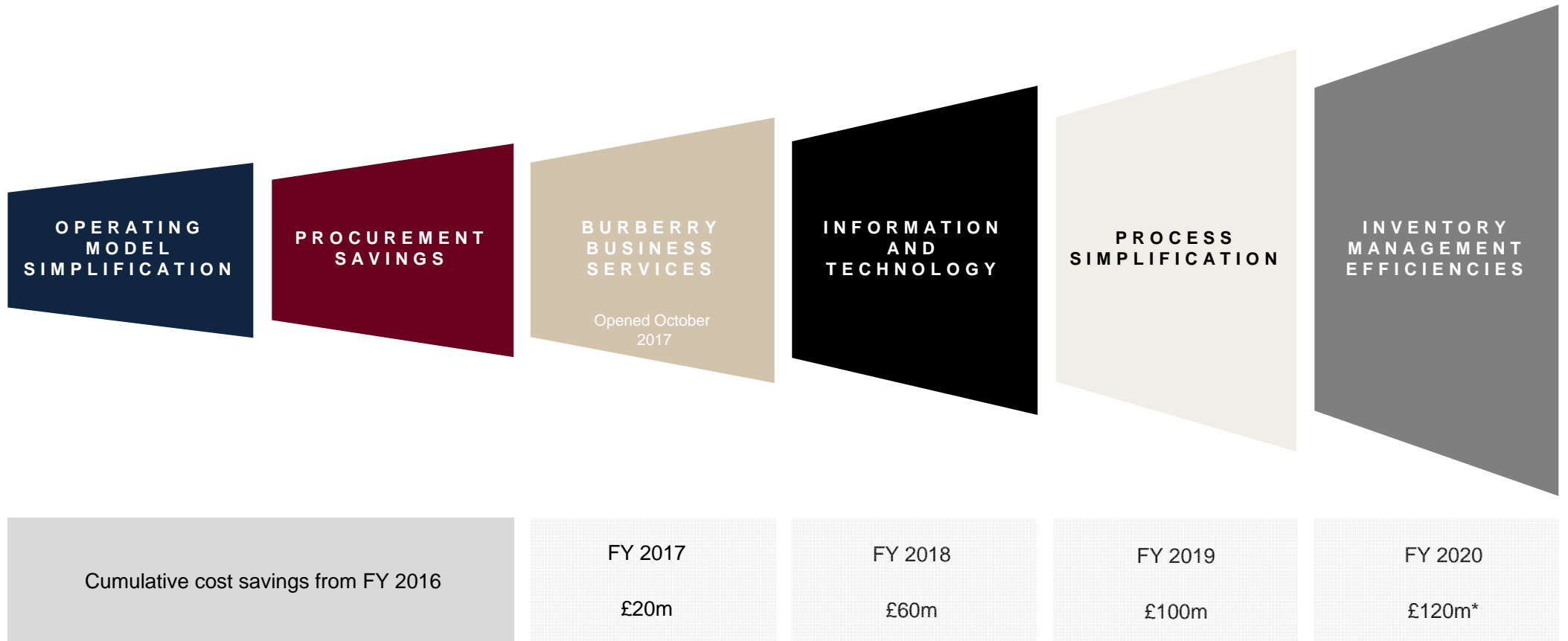
- Leverage the fixed and semi-fixed overhead cost components of our business

## TAX RATE

- Improvement in adjusted tax rate\* by 200-300 bps by FY 2020 from 26% in FY 2017

\*Guidance assumes constant exchange rates, stable economic environment & current tax legislation

# COST SAVINGS BY MAJOR LEVER



\*Annualised savings

# COST SAVING DELIVERY BY MAJOR LEVER



Announced in May 2016

Committed to savings of at least £100m annualised by FY 2019

Simplification of operating model begins

Procurement savings start

Simplification of operating model

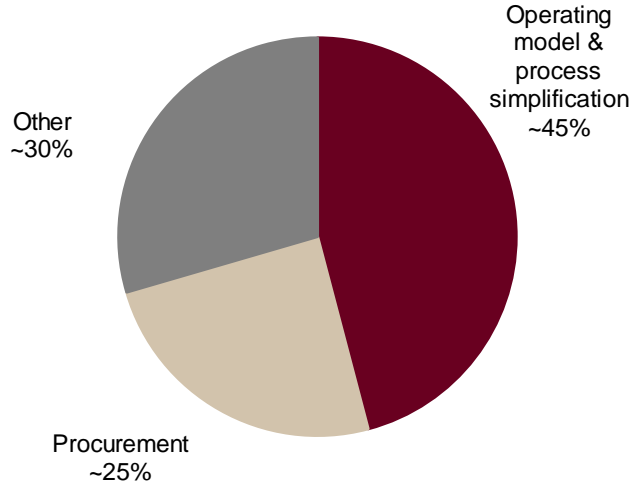
Procurement savings build

Burberry Business Services operational from October and scope expanded

**ACCELERATED DELIVERY TO CUMULATIVE OF £60M IN FY 2018 AND £100M IN FY 2019**

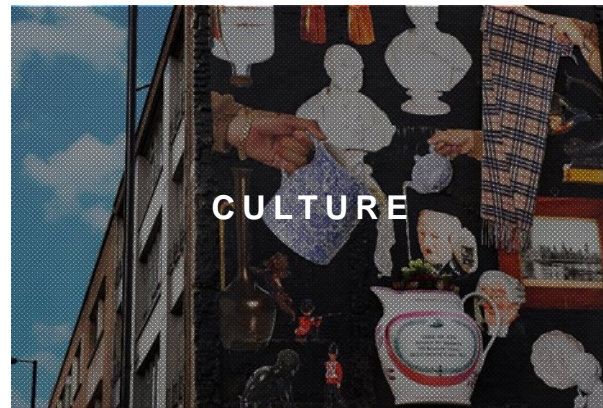
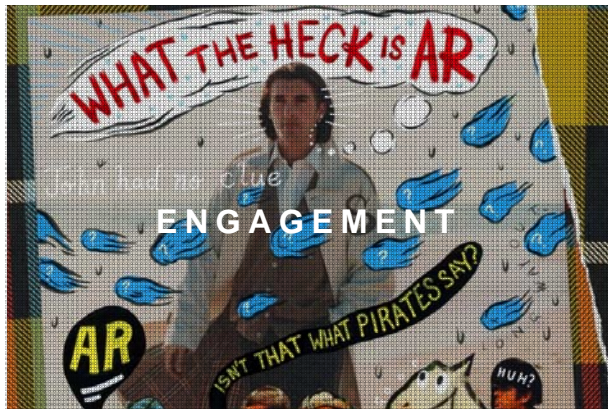
**EXPANDED SCOPE TO TARGET £120M ANNUALISED SAVINGS IN FY 2020**

**SPLIT OF £120M COST SAVINGS BY CATEGORY (%)**





# THIS STRATEGY WILL BE UNDERPINNED BY OUR PEOPLE ...



# CAPITAL ALLOCATION FRAMEWORK

REINVEST FOR  
ORGANIC GROWTH

PROGRESSIVE  
DIVIDEND  
POLICY

STRATEGIC  
INVESTMENTS

RETURN  
EXCESS TO  
SHAREHOLDERS

MAINTAIN STRONG BALANCE SHEET WITH SOLID  
INVESTMENT GRADE CREDIT METRICS

# DELIVERING SUSTAINABLE LONG-TERM VALUE

<b>CASH</b>	<b>SIGNIFICANT CASH GENERATION OVER THE PLAN</b>
<b>DIVIDEND</b>	<b>PROGRESSIVE POLICY WITH THE DIVIDEND AT LEAST IN LINE WITH THE PRIOR YEAR</b>
<b>ROIC</b>	<b>ROIC SIGNIFICANTLY AHEAD OF WACC</b>

# THIS WILL BE A TWO-PHASED TRANSFORMATION JOURNEY

## BUILD THE FOUNDATION

- Commence programme to re-energise the brand and establish our position in luxury, building on our productivity and efficiency agenda
- Rationalise and invest to align our distribution
- Manage creative transition

## ACCELERATE AND GROW

- Complete full brand transformation, with a new creative vision
- Drive forward all elements of the strategy
- Accelerate growth

# WHAT WE WILL ACHIEVE

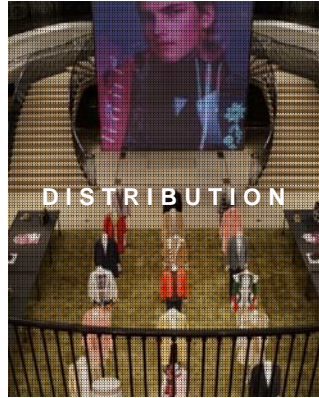
One of the world's **most valuable** and **desirable luxury brands**



A luxury fashion house



An inspiration for luxury consumers



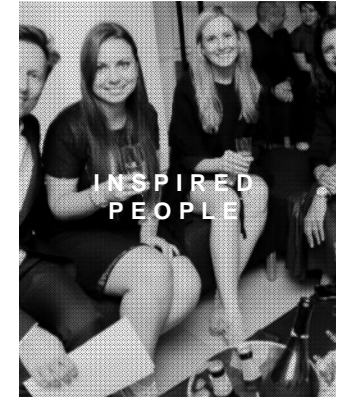
A luxury network



Unrivalled in digital innovation



An agile company



A highly engaged global team

Firmly established in **luxury** – the most valuable and enduring segment of the industry - creating sustainable **value** for all stakeholders

# OUR FINANCIAL PLAN\*

(AT CONSTANT EXCHANGE RATES)

FY 2019 & 2020

AMBITION

	FY 2019 & 2020	AMBITION
<b>REVENUE</b>	<ul style="list-style-type: none"> <li>Sales broadly stable year-on-year</li> <li>Rationalise non-luxury distribution</li> </ul>	<ul style="list-style-type: none"> <li>High-single digit top-line growth</li> </ul>
<b>OPERATING MARGIN</b>	<ul style="list-style-type: none"> <li>Adjusted operating margin broadly stable YoY, even during period of investment in the brand</li> <li>£120m annualised cost savings by FY 2020</li> </ul>	<ul style="list-style-type: none"> <li>Meaningful operating margin expansion</li> </ul>
<b>CASH</b>	<ul style="list-style-type: none"> <li>Capex of £150-£160m</li> </ul> <p>Strong free cash conversion and application of capital allocation framework including progressive dividend and shareholder distributions</p>	<ul style="list-style-type: none"> <li>Capex builds to £190m-£210m</li> </ul>

\*Guidance assumes constant exchange rates and a stable economic environment

# H1 2018 FINANCIAL HIGHLIGHTS

Six months to 30 September	2017 £m	2016 £m	----- Change -----	
			Reported FX	Underlying
Revenue	1,263	1,159	9%	4%
Adjusted operating profit	185	144	28%	17%
Adjusted operating margin	14.6%	12.5%		
Operating profit	127	102	24%	
Adjusted diluted EPS	32.3p	24.4p	32%	
Diluted EPS	21.4p	16.2p	32%	
Free cash flow*	171	75		
Net cash	654	529		
Dividend per share	11.0p	10.5p	5%	

# FY 2018 OUTLOOK

<p><b>S A L E S</b></p>	<p><b>RETAIL</b> Focus on existing store productivity, no net contribution from new space</p> <p><b>WHOLESALE</b> H2 underlying expected to decline by a mid-single digit % (H2 2017: £226m)</p> <p><b>LICENSING</b> +20% underlying including new Beauty licence from H2</p>
<p><b>P R O F I T</b></p>	<p><b>ADJUSTED OPERATING PROFIT</b> No change to our expectations at constant exchange rates*</p> <p><b>CUMULATIVE COSTS SAVINGS</b> £60m</p> <p><b>ONE-OFF COSTS</b> £75m operational and £10-15m one-off tax adverse charge</p> <p><b>TAX RATE</b> Effective tax rate of c.25% (down 80bps year-on-year)</p> <p><b>FX</b> £20m* negative impact of FX on adjusted operating profit vs FY 2017</p>
<p><b>C A S H</b></p>	<p><b>CAPEX</b> £130m</p> <p><b>SHARE BUYBACK</b> £350m shares to be purchased in FY</p>

\* Effective rates as at 31 December 2017, taking into account the current hedged positions



# APPENDIX

# Q3 REVIEW

## RETAIL SALES £719M, +1% UNDERLYING

- Comparable store sales +2%
  - Mainland China annualising start of Chinese consumer rebound
  - UK annualising exceptional growth in prior year
  - AUR headwind

## OPERATIONAL PROGRESS

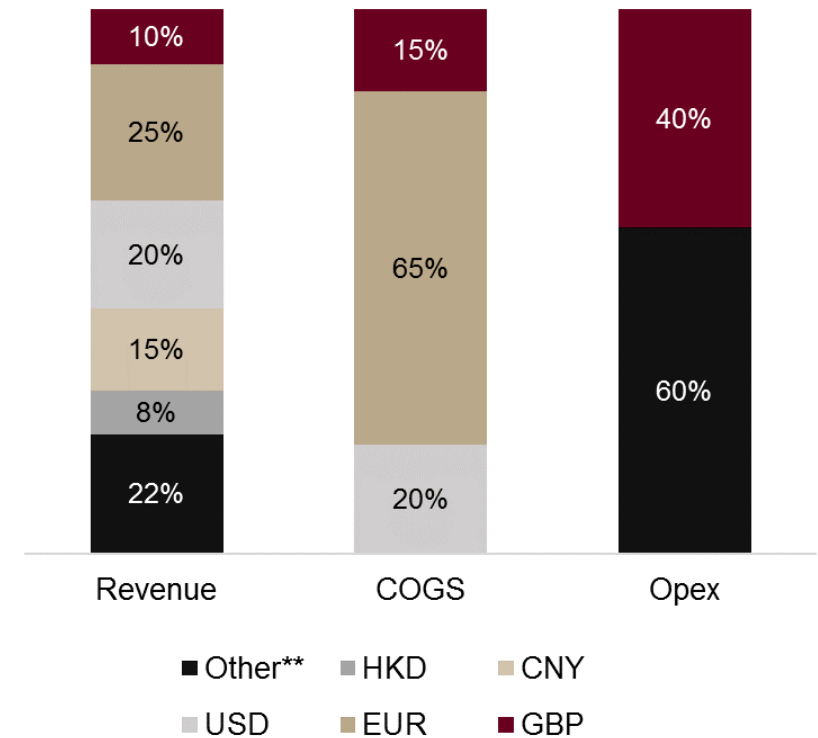
- Fashion outperformed
- Preparing for new leather goods offer
- Positive results from expanded outfit offer
  
- Creative partnerships across events, social and other media
  
- Piloted new in-store sales associate tool
- Commenced engagement with wholesale partners
- Exclusive capsule for NET-A-PORTER
  
- Burberry Business Services recruitment ahead of plan
- Launched global employee engagement programme



# FOREIGN EXCHANGE RATES

	Spot rates		Forecast effective FY 2018 rates		Average FY 2017 rates
	31 Dec 2017	31 Dec 2017	31 Dec 2017	31 Oct 2017	
<b>£1=</b>					
Euro	1.13	1.13	1.13	1.14	1.19
US Dollar	1.34	1.31	1.31	1.31	1.30
Chinese Yuan Renminbi	8.79	8.77	8.77	8.77	8.73
Hong Kong Dollar	10.47	10.26	10.26	10.23	10.11
Korean Won	1,441	1,460	1,460	1,477	1,487

FY 2017 Currency exposures \*



\*This is a simplified view of Burberry's FX exposures to help with analyst modelling

\*\* Other includes HKD, USD, EUR and CNY in opex

# ONE-OFF CHARGES & US TAX LEGISLATION

## One off restructuring charges

£m year ended March	2017	2018F	2019F
One off restructuring charges	21*	75	15

## Impact of US tax legislation

- Burberry notes the recently enacted Tax Cuts and Jobs Act ("the Act"), which came into effect on 1 January 2018. While work is ongoing and we will provide more detailed information with the publication of our FY 2018 Annual Results, our preliminary impact assessment is noted here.
- The measures included in the Act, subject to any further specific guidance on interpretation being released, are likely to give rise to an initial one-off and non-cash tax charge in the range £10m–£15m in FY 2018 resulting from the revaluation of the Group's aggregate US Deferred Tax Assets and Deferred Tax Liabilities, following the reduction in the US federal rate of corporate income tax. This will not impact adjusted EPS.
- From 2018 the impact of the headline federal rate reduction is likely to be very marginally positive. Based on this preliminary assessment, our guidance for this year's effective tax rate on adjusted profit at 25% and for a 200-300bp reduction in the group effective tax rate by FY 2020 remains unchanged.

# AMERICAN DEPOSITARY RECEIPT PROGRAMME

Burberry has an American Depositary Receipt (ADR) programme that trades on the Over-The-Counter ('OTC') market in the US.

An ADR is a receipt that is issued by a depositary bank representing ownership of a company's underlying ordinary shares. ADRs are quoted in US dollars and trade just like any other US security. The company has a sponsored Level 1 ADR programme for which The Bank of New York Mellon acts as Depositary.

Ratio: 1 ADR = 1 ordinary share

Exchange: OTC

Symbol: BURBY

CUSIP: 12082W204

OTC Markets: <http://www.otcm Markets.com/stock/burby/quote>

# ALTERNATIVE PERFORMANCE MEASURES

All metrics and commentary in this presentation are at reported FX and exclude adjusting items unless stated otherwise.

The definition of adjusting items is included in note 4 of the Condensed Consolidated Interim Financial Statements.

H1 2018 adjusting operating items are:

- £33m restructuring costs relating to the cost efficiency programme
- £28m costs associated with the transfer of Beauty operations
- £3m Burberry Middle East changes in deferred consideration

H1 2018 Adjusting finance items are £2m reflecting Burberry Middle East deferred consideration financing charges

Underlying performance is presented in this document as, in the opinion of the Directors, it provides additional understanding of the ongoing performance of the Group. Underlying performance is calculated before adjusting items and removes the effect of changes in exchange rates compared to the prior period. This takes into account both the impact of the movement in exchange rates on the translation of overseas subsidiaries' results and on foreign currency procurement and sales through the Group's UK supply chain.

Comparable sales is the year-on-year change in sales from stores trading over equivalent time periods and measured at constant foreign exchange rates. It also includes online sales.

Free cash flow is defined as net cash generated from operating activities less capital expenditure plus cash inflows from disposal of fixed assets. Cash conversion is defined as free cash flow pre tax/ adjusted profit before tax

Lease adjusted net debt is defined as five times minimum lease payments, adjusted for charges and utilisation of onerous lease provisions, less cash.

Certain financial data within this presentation have been rounded.

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The financial information contained in this presentation is unaudited.

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## REPORTING CALENDAR

Preliminary results 16 May 2018

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**BURBERRY**