Burberry Group plc

Q1 FY25 Presentation

Monday 15th July 08:00

Burberry

Gerry Murphy, Chair

Kate Ferry, Chief Financial Officer

Questions From

Antoine Belge, BNP Paribas

Thomas Chauvet, Citi

Louise Singlehurst, Goldman Sachs

Chiara Battistini, JP Morgan

Rogerio Fujimori, Stifel

Zuzanna Pusz, UBS

Luca Solca, Bernstein

Erwan Rambourg, HSBC

Gerry Murphy, Chair

Good morning everyone and thank you for joining us at short notice. I am Gerry Murphy, Chair of Burberry, and with me is Kate Ferry, our CFO, and Lauren Wu Leng, Head of Investor Relations.

As you will have seen, we published our Q1 trading update this morning. There are slides to accompany this call on the corporate website.

We also announced the appointment of Joshua Schulman as Chief Executive Officer and Executive Director, replacing Jonathan Akeroyd who is stepping down and leaving the Company with immediate effect by mutual agreement with the Board. Josh will join Burberry on the 17 of July in a couple of days time.

I will talk about Josh's appointment and our near-term priorities in a moment. First, I will hand over to Kate to talk through our performance for Q1 FY25 and our outlook for the full year.

Then we will take your questions at the end.

Kate Ferry, Chief Financial Officer

Thank you, Gerry, and good morning.

As you all know, we are operating against a backdrop of slowing luxury demand with all key regions impacted by macroeconomic uncertainty and contributing to the sector slowdown.

In this context, our Q1 FY25 comparable store sales fell 21% and that compares with plus 18% this time last year.

As highlighted on slide five, all regions declined outside of Japan with Asia-Pacific -23% with mainland China was -21%, South Asia-Pacific -38%, South Korea -26% and Japan +6%.

Globally, the Chinese customer group declined high teens but held up better than mainland China as spend was diverted offshore. Japan continued to grow, benefiting from strong tourism spend, mainly from Chinese and nearshore customers in Asia, while locals remained soft.

America's decreased 23%, driven by locals. Globally, the America's customer group performed broadly in line with the region. EMEIA fell 16% with local spend deteriorating versus last quarter. Tourists accounted for just over half of retail revenues but declined by a high single digit percentage.

Turning to slide six of the deck this provides a breakdown of our Q1 full year 25 retail sales. The contribution from space was 1%, leading to a 20% decline in retail sales at constant exchange rates to £473 million pounds.

Currency was a 2% headwind in the period, with retail revenue coming in at £458 million pounds, down 22% at repeated exchange rates.

Turning to outlook on slide seven, the slowdown we experienced in Q1 FY25 has continued into July. If this trend were to continue through the quarter, we would expect to report a half one operating loss for our full year 2025 operating profit to be below current consensus.

In light of current trading, we've decided to suspend dividend payments in respect of full year 2025 in order to maintain a strong balance sheet and to strengthen our competitive position and underpin long-term growth.

To help with modelling in full year 2025, we expect retail space to be broadly stable, wholesale revenue to decline by around 25% in the first half and decline by around 30% in the full year. Capital expenditure will be around £150 million and currency will be a headwind of around £55 million on revenue and around £20 million on operating profit, all based on foreign exchange rates effective as at the 28th of June.

I will now hand back to Gerry.

Gerry Murphy, Chair

Thank you Kate. As you know, we embarked a couple of years ago on a journey to position Burberry as the Modern British luxury brand.

This ambitious vision has been our North Star. While we are confident that our strategy will deliver sustainable long-term value, our results, particularly recently, have been disappointing.

We moved quickly with our creative transition in a luxury market that is proving more challenging than expected.

The weakness of the US market, deteriorating consumer confidence in mainland China and instability in Europe as well as the UK's decline in the shopping destination have all been headwinds to our creative transition. In the context of a weaker global market, as we saw even today from Swatch, we are taking decisive action to rebalance our offer to be more familiar to Burberry's core customers by delivering relevant newness.

In terms of brand, we are emphasising its universal resonance and forging powerful emotional connections with our current and new customers.

In terms of product, we're enhancing our diversified and inclusive offerings with a clear focus on our unique strengths in the market, outerwear in particular.

In terms of our customer base, we're maintaining our relevance with fashion forward customers while nurturing those who seek quality and durability and appreciate the everyday timeless elegance of our British heritage.

You will see these changes happening, some indeed are already underway in our stores where you can already witness how we are blending our heritage with novelty and expanding our assortment to re-establish Burberry's universal positioning.

In our upcoming outerwear campaign set to roll out in October, we will celebrate our heritage and tradition on our website where we will be revitalising our storytelling over the coming weeks.

We expect these actions we are taking to start to deliver an improvement in our second half and to strengthen our competitive position and underpin long-term growth. Significantly, we've appointed Josh Shulman as our new CEO to lead this next phase.

We're replacing Jonathan Akeroyd who is stepping down by mutual agreement with the board. Josh is a proven leader with an outstanding record of building global luxury brands and driving profitable growth. He has a strong understanding of our brand and shares our ambition to build on Burberry's unique creative heritage.

We're grateful to Jonathan for the contribution he has made to Burberry. Jonathan set out a clear strategy for growth in Modern British luxury that we will build on. We're confident our strategy will deliver sustainable long-term value.

Our brand remains very strong. Our core categories are very resilient with a unique British heritage. I'm confident that we will achieve our ambitions under Josh's leadership.

Now, Kate and I will take your questions.

Questions and Answers

Moderator
Thank you. If you would like to ask a question, you may do so by pressing star followed by one on your telephone keypad.

If you would like to withdraw your question, please press star followed by two. When preparing to ask your question, please ensure your phone is unmuted locally. To confirm, press star followed by one to ask a question.

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

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Antoine Belge, BNP Paribas

Yes. Hi. Good morning. It's Antoine at BNP. Three questions, if I may.

First of all, regarding the appointment of Josh, can you first of all confirm that he was unemployed since leaving Capri in March 2022? Also, his main CEO experience was in the affordable luxury brand rather than luxury brands. Does it signal maybe a change of strategic positioning, maybe a bit away from brand elevation and maybe coming back to a bit more of an affordable luxury positioning?

My second question relates to this possibility that H1 could be loss-making. Is it possible to have a bit of underlying assumption in terms of gross margin? How much could it decline? Also, the OPEX growth and if there would be any exceptional in that OPEX space.

Finally, regarding the new wholesale guidance for the second half, where is the deterioration coming from? I think when you outlined the H1 guidance, you gave sort of three buckets.

Maybe that could be helpful to have a similar breakdown between your own initiatives and what is more driven by the market. Thank you.

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Gerry Murphy, Chair

Thank you, Antoine.

Let me deal with the questions about Josh first, then Kate will take the questions on the numbers. Josh's last major executive role was indeed at Coach, which, as you know, was a very successful global brand. But before Coach, Josh's experience in luxury includes a very successful stint at Jimmy Choo, based here in the UK, a very successful period as CEO of Bergdorf Goodman, and prior to which he worked with Kering at Yves Saint Laurent.

So, Josh's experience, frankly, over most of his career actually is in luxury. The strategy for Burberry has been, since Marco Gabetti's time, has been very much about positioning Burberry as a true luxury brand, and for the avoidance of doubt, that will not change. Jonathan Akeroyd coined the concept, as I've said, modern British luxury, again, very much reflecting an ambition to position Burberry as a unique British luxury brand proposition.

And that is very much Josh's intention when he joins, in fact, later this week. So, you should not assume that there will be any major shift in strategy. As we said in the statement and in the release, the focus is very much on rebalancing our offer to be more familiar to Burberry's traditional clientele, based on a greater representation in the assortment of classic timeless pieces, but with a top spin of novelty and newness provided by Daniel Lee for the runway customers and for more fashion-forward customers.

So, we're trying to be a universal brand. There's a recognition, I guess, in the statement that we do need to reposition, I guess, back to our core to some extent, but it's an adjustment, not a reversal of strategy. I want to be very clear about that.

On the numbers, Kate.

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Kate Ferry, Chief Financial Officer

Good morning, Antoine. So, if I firstly take your question on half one, we're not going to guide to a specific number this morning, but let me just help give you some pointers in terms of the key building blocks there.

So, on revenue, we've obviously reported that Q1 will be down 21%, and we actually exited the quarter slightly worse than that. And we indicated, obviously, you can see in the statement that wholesale will decline by around 25% in the first half. I'll come on to a bit more detail on that in a moment as per your third question.

On the margin, as you'll remember, historically, we do tend to see a lower gross margin in first half versus second half, and this is predominantly due to seasonality. You'll remember the H2 FY24 gross margin was 65.8%, and I think you're going to see some of the headwinds that you saw in the second half continuing. So, those would be investment, obviously, in the supply chain that we've previously talked about.

And then, of course, there potentially could be some inventory provisions given where we're trading, but I'll give you more detail on that at the H1 stage. So, I think if you consider all of this, and of course, you've got some FX headwinds in the first half, so that'll be about -50%.

I guess the final piece to mention then would be OPEX. We typically tend to experience it's normally mid-single-digit inflation on the fixed element of the cost base, our fixed cost base being around 80%. As you can imagine, we're really reviewing the cost base very carefully given the trading environment, but most of the cost actions that we are now taking will come through in the second half. So, I'd expect second half of the cost actions will offset the impact of inflation, but you will still see a bit of inflation in the first half.

And then, I think the final piece is that, as ever, there'll be a number of accounting adjustments to consider at the half year, and yet to see whether that will be an additional headwind.

Then, just on your wholesale question, as per the statement, we expect wholesale to decline by 25% in the first half and about 30 percent in the full year. And I'll just remind you the main moving parts in that, and we talked about some of this back in May.

So, we actively have taken the decision to reduce our exposure to some accounts, mostly in EMEIA. As you know, we're in a pretty good position in wholesale in the other regions, so that's very much increasing our control of distribution. We have also accelerated the conversion of some of our wholesale accounts to retail. That's mostly in the US. And then, of course, as we flagged this morning, the external environment does remain very tough, and wholesale has been impacted by this. But as ever, we're working closely with our partners to reduce any risk of destocking.

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Moderator

We now turn to Thomas Chauvet with Citi. Your line is open. Please go ahead.

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Thomas Chauvet, Citi

Good morning, Kate and Gerry, and apologies for the background noise. I was caught out a bit by surprise this morning. A couple of questions, please.

The first one on the slight change, perhaps, in brand strategy and positioning. You're talking about reinforcing Burberry's classic positioning. Does that mean that you don't necessarily need a dedicated creative director, and can you let us know what the duration of Daniel Lee's contract is? I think he joined in the autumn of 2022, so about two years ago.

And secondly, you had already indicated back in May you'll try to offset underlying cost inflation with some cost initiatives. Are you re-evaluating the magnitude of cost-cutting action needed in light of recent trends, and could you elaborate a little bit on what these cost actions are?

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Gerry Murphy, Chair

Thank you. I'll take the questions about Daniel, Thomas, and Kate will pick up on the numbers again.

Look, we believe, as does the market generally, that Daniel Lee is a rare creative talent. We're very excited when he joined and remain so. There is no plans to change our creative leadership.

Josh is looking forward to working with Daniel. He's already spoken to him, and they will meet this week, so no you should not assume any change in creative leadership at this stage.

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Kate Ferry, Chief Financial Officer

And then just on the costs, I'll just start by saying we will absolutely prioritise investment in consumer-facing areas, but as you would expect, we're balancing this with very disciplined cost control, key opportunities being in areas such as procurement, travel and improving operating efficiencies.

We are, though, you know, even more focused on cost savings in the second half, and as per my comments just now, I think we're pretty confident that the cost initiatives that we are taking will enable us to offset the impact of inflation in the second half, which, you know, does require some, you know, fairly good cost savings given the size of our cost base.

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Moderator

We now turn to Louise Singlehurst with Goldman Sachs.

Your line is open. Please go ahead.

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Louise Singlehurst, Goldman Sachs

Hi, good morning, Gerry and Kate.

Thanks for taking my questions. Just a couple for me, please. If I could just go back onto the point on the product, and obviously we've all been asking about this, but the everyday luxury offer and just what that actually means.

It seems very sensible to be focusing on the outerwear, and obviously you've talked about the coming in from October, but does this mean a much more kind of casualwear offer? Is this something that Daniel Lee is fully committed to and would be overseeing the whole collection as well, and just the timing around that everyday luxury offer?

And then my second question is just to follow up on the whole – that the messaging here this morning is obviously one of not much change, but there is quite a lot of change if we look underneath the hood in terms of product and thinking about where the brand potentially is going to go. Is this more of a holding pattern until we hear from obviously Josh when he comes in in November? Are we awaiting now for a step two in terms of the strategy update? I presume yes, with a new head at the helm. Thank you.

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Gerry Murphy, Chair

Thank you, Louise. No, you shouldn't assume a significant change of overall direction. Josh has been very engaged in thinking about Burberry for a number of years and has a very clear view of where he wants to take the brand, and it's very consistent with what Jonathan was trying to do.

We recognise that in a difficult macro environment, a creative transition has proven difficult, and we recognise, as Jonathan said, that once we went live with Daniel's collections, we needed to trim and adjust to, I guess, to favour and to emphasise more of the timeless classics in the collection. And we also want to make sure that Burberry is a genuinely inclusive brand, and we've got a good offering through the price points, from sort of entry-level luxury to higher price points for customers who want something different and novel. So, it's more about democratising Burberry, but within a genuine luxury context than it is about what people commonly refer to as premium or affordable luxury.

That is not the strategy. You will hear from Josh more fully at the half-year stage when he's been in the business for a few months, but you should not expect radical change. That's not the agenda here.

Louise Singlehurst, Goldman Sachs

Thank you. And can I just confirm that Daniel will be looking over the whole collection, just to – there's no changes there?

Gerry Murphy, Chair

Josh and Daniel will work out their modus operandi. As I said, they've already spoken.

Daniel is excited about Josh joining. We spoke about it last night, and they'll meet this week. Effectively, Daniel will concentrate on runway and on innovation, and he and our sort of commercial product team will craft the sort of mainstream assortment.

But Daniel will be involved as creative director in all aspects of our creative proposition.

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Moderator

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

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Chiara Battistini, JP Morgan

Hi. Thank you very much for taking my questions. Just a couple, please, from me as well.

Following up on just your comment about democratising, but still maintaining a luxury positioning, and I guess it's too early to talk about views on pricing strategy from here. Is that right? And also, from a store network perspective, maybe any early views on how maybe the store network could evolve going forward, including outlets?

And the second question, shorter term actually, on the Q1 trading update on Europe versus my expectation, Europe definitely took a step down. So could you maybe comment on that and give us more colour between domestic and tourist please on European performance? Thank you.

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Kate Ferry, Chief Financial Officer

So just to give you a little bit more detail on Europe, so you could see in total, we saw a 16% decline with an exit rate a little bit worse than that.

I mean, certainly locals did continue to decline in the quarter, down certainly worse than what you would have seen before. Tourists were about half retail revenues, and they declined as a group, kind of, I would say, high single digit percentage. Tourists were about 55% in the quarter.

So that is lower, certainly, than what we would have seen pre-pandemic. And Chinese customers are around, I think, 19-20% of the mix, but again, still well below what we would have seen pre-pandemic.

And I think if I just take the one on the store network as well, you know, we are reiterating the guidance that we gave in the full year in terms of CAPEX, £150 million, you know, clearly the store network, you know, we have a very strong distribution footprint and, you know, investing here is absolutely key to long term growth.

So no change to this strategy at that stage.

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Gerry Murphy, Chair

And on the other question, Chiara, by democratising, I meant ensuring that Burberry is an inclusive brand, that customers can find products that they regard as timeless and familiar from Burberry at prices that are also kind of familiar and predictable but offering a full range across categories and through price points. I think we certainly want to rebalance the assortment from where it is now to be more inclusive.

There's a recognition, I think, in the actions we're taking that we needed to course correct a bit in a tough market and we're doing that.

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Moderator

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

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Rogerio Fujimori, Stifel

Well, hi. Good morning, everyone. I have a question about leather goods.

I appreciate your comment on no radical change in strategy. I think Jonathan's strategy was really centred in leather goods and moving the average selling price points higher with a more exclusive offer with price points compared to, say, Prada or Gucci. So what are the implications from his departure on your leather goods strategy, and is it, from what I understand, rebalancing the mix towards lower price points in bags, perhaps with more novelties in the 1,000, 1,500 price points? Thank you.

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Gerry Murphy, Chair

Thank you, Rogerio, for the question. This is about rebalancing, not about radical change. It's about ensuring that we have the right product mix through price points, but we will continue to make available higher priced, more elevated product to those customers who want that, but ensuring that we have better availability through the range, but from a luxury starting point that is very much the intention.

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Moderator

We now turn to Zuzanna Pusz with UBS.

Your line is open. Please go ahead.

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Zuzanna Pusz, UBS

Good morning. Thank you for taking my questions. So just two for me. Maybe first of all on the strategy, because I'm not sure I fully understand why then the CEO changed, because I think the message so far is that you're not really reversing the strategy.

You're just adjusting it, and you don't seem to be planning to go away from sort of brand elevation. So, you know, what really is the change, and why it couldn't be really implemented under Jonathan Akeroyd, just so that we understand maybe fully what's happening? Because with the CEO change, it looked initially like it would be a reversal in the strategy. But I guess from what you said so far, it feels like there's not much change done, and Daniel Lee’s still going to be in charge. You still want to elevate the brand. So, you know, just to maybe understand what's the new CEO bringing that Jonathan really couldn't bring to the table.

And secondly, maybe on your outlet exposure. I remember, you know, in the previous calls we had when Marco Gobbetti left, you were mentioning that the business is, you know, much better quality than it was in the past, which I guess, you know, makes sense on the wholesale level. But it does seem actually your outlet exposure has been increasing over the years. So, you know, is this something that you plan to change? I mean, it is quite important in luxury, and I think customers do look at it. If a brand has a big outlet exposure, it is not necessarily recognised as being so, I would say, high end. So, any update on the outlet exposure and what the new CEO change may involve would be very helpful. Thank you.

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Gerry Murphy, Chair

Thank you, Zuzanna. On the CEO question, Jonathan is, as you know, one of the most highly respected figures in the fashion industry, and frankly, one of the most popular, both inside the business and externally. But sometimes things don't work out as planned, and we need to make a change.

And that's why we agreed with him, and that's why we're appointing Josh as CEO for this next phase. That happens, and it's happened in this case, and we are sad to see Jonathan go, but we're also excited that Josh is joining. And I really have no more to say about it than that.

On the outlet question, over time, we do want to bring down the outlet penetration. In a period where trading is challenging, it is, frankly, very useful to have an outlet channel to manage our inventory in a way that is controlled and accretive to the brand. And over time, pretty much as Marco outlined some time ago, the strategy is to reduce our outlet penetration.

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Zuzanna Pusz, UBS

Thank you. And just follow up on the outlets. Can you maybe share with us any colour around what percentage of your profits are outlets? Because I understand, obviously, things have been challenging.

But given that, my understanding is that you still produce quite a bit of product made for outlet. I guess that's a key component, because it is not used just to access inventory. It is a separate business on its own.

So, is this something that is going to change, or is it going to stay the way it is?

Kate Ferry, Chief Financial Officer

So, I'm afraid, as you know, we don't disclose our exposure to outlets. I mean, I think just to reiterate what Gerry said, you know, we will, our ambition is to reduce our outlet exposure, but it is, you know, an important part of our life cycle.

Gerry Murphy, Chair

Yeah, we don't regard the otlet as a separate business.

Their prime purpose is to manage our inventory as part of the product life cycle. And obviously, we have to complement the excess inventory with some made for outlet products so that we have a compelling offer to customers when they come to the stores. But we don't see it as a separate business, and we're not trying to develop it as a separate business.

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Moderator

As a reminder, if you'd like to ask a question, please press star one on your telephone keypad now.

We now turn to Luca Solca with Bernstein.

Your line is open. Please go ahead.

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Luca Solca, Bernstein

Yes, good morning.

I have a couple of questions. I wonder, as the brand is in transition, and as you've been forced to discount quite a significant amount of your inventory, how you go about assessing potential brand equity damage from this excess inventory going into the market? And what kind of lead time it would take to sort of adjust and correct the consumer perception of the Burberry brand now that it is discounted heavily in the market?

The second question is about making sure I understand perfectly well what rebalancing means. The way I understood it so far is that rebalancing means opening more entry price points to make sure that the brand remains inclusive and that you have the broader audience that Burberry should command.

And therefore, this means an adjustment relative to just moving the brand higher. So, higher, okay. You will retain that, but you will also make sure that you have entry price to satisfy consumers in the aspirational middle class segment.

I wonder if this is a correct understanding of what you're trying to do. I'm just saying this to confirm or not confirm that this is.

And then if you could elaborate on what came short other than performance and results, clearly, but what came short in terms of how implementation of the strategy was carried out and what are the most important elements that Josh should be correcting? Thank you.

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Gerry Murphy, Chair

Okay. Thank you for your questions. I think you've summarised it pretty well in terms of ensuring that we have product that is timeless and familiar to customers available through the price points from entry level through to more elevated, more novel product with more innovative design content, rather than shifting everything upwards.

So, I think elevation means different things to different people. It's a vague enough term. It does not mean selling absolutely everything at a higher price point than last year.

It means having product available to customers who are willing to pay more for product with different characteristics. But it is very much about making sure that we do have product available for customers who want to buy familiar propositions from Burberry.

The question on brand equity, we will manage the inventory consequences of our weak trading over the next two or three seasons as we would do normally through our outlets and in a controlled way. And we don't think there's any lasting brand damage as such.

Sorry, Luca. Did you have a follow-up question?

Luca Solca, Bernstein

Yeah, I was just wondering, what are the most important elements that came short in terms of implementing the strategy during the previous tenure of Jonathan? And what should Josh be correcting if you could potentially share the two or three most important priorities for him to act on?

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Gerry Murphy, Chair

Yeah, I think Jonathan himself in May signalled a rebalancing back towards the core, back towards timeless product, back towards marketing propositions and aesthetic that is more inclusive and more familiar to customers. So it's very much executing the actions that are already in place. And getting those done as quickly as possible to rebase the core of the business.

So there's nothing novel in the agenda going forward. It is about executing what's already in place.

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Moderator

We now turn to Erwan Rambourg with HSBC. Your line is open.

Please go ahead.

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Erwan Rambourg, HSBC

Yeah. Hi, good morning.

Thanks for taking my questions and well done on getting Josh on board. Maybe just two follow-ups. The macro is hurting everyone in luxury. I'm just wondering what you could have done differently, what was under your control that in hindsight you could have done differently over the past two years?

And then secondly, I think you've lost a lot of regional heads, the Chief Commercial Officer, the head of the US, the head of Europe, one or two clusters in Asia. Have you replaced these people or are you still in between and can you benefit from Josh's contacts to make hires at a later stage? Thank you.

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Gerry Murphy, Chair

Thank you, Erwan. On the hindsight question, yeah, the market, as I said in the statement, has been weaker than we expected and probably weaker than even you expected in key markets for us like China and North America. And in effect, our European market is mainly about tourism, which frankly is mainly about Chinese and Americans for the most part. So it's been a tougher market where customers are more cautious, more conservative, not just about price but on style.

And I think we, with the benefit of hindsight, perhaps we moved a bit too far, too fast with the new aesthetic in the markets that was weakening and where customers basically favour familiarity. So essentially, the corrective actions we're taking, I think, to answer the question that you posed. And they set out the agenda near term as well for Josh, which is really all about executing what's already in place at pace.

On colleagues, yes, we have indeed lost a few colleagues to other opportunities. The recruitment of those is well in hand. Josh will obviously take his own view.

The processes are at different stages of completion. Some are very near completion. Others will take a little longer, but he'll want to make his own of that.

In the meantime, the team is well established and very capable. And I don't think we will miss a beat.

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Moderator

This concludes our Q&A session for today.

I'll hand now back over to Gerry for any closing remarks.

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Gerry Murphy, Chair

Well, I just want to say thank you again for joining us at very short notice. And we look forward to seeing you all for our interims update in November.

So thanks, everybody.

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Moderator

This now concludes today's conference call. Thank you all for attending.