FLASH REPORT

(LSE: BRBY) 2H17 Trading Update: Sales Buoyed by Accessories, Strong Performance in the UK and Mainland China

- **Burberry reported a 2H17 group revenue decline of 1% at constant currency to £1,607 million (up 14% in reported currency), below the consensus estimate of £1,617 million.**
- **Retail revenues grew by 3% at constant currency to £1,268 million (up 19% in reported currency). Comps grew by 3%, slightly ahead of the consensus estimate of 2.5%.**
- **Wholesale revenues fell by 13% at constant currency to £327 million (down 1% in reported currency) and licensing revenues contracted by 38% at constant currency to £12 million (down 26% in reported currency).**
- **The company maintained its expectation for FY17 pretax profit.**

2H17 Sales Update

British luxury fashion house Burberry reported a 2H17 group revenue decline of 1% at constant currency to £1,607 million, or 14% growth as reported. Revenues came in below the consensus estimate of £1,617 million.

Retail revenues grew by 3% at constant exchange rates to £1,268 million, and were up 19% as reported. Comps grew by 3%, slightly ahead of the consensus estimate of 2.5%. Among the categories, Burberry highlighted that accessories outperformed, while leather goods saw growth in the mid-teens percentage.

Wholesale revenues fell by 13% to £327 million at constant currency and down 1% as reported, impacted by distribution restructuring in key markets, and distributors de-stocking its beauty products as Burberry prepares for its strategic partnership with cosmetics brand Coty, which was announced on April 3, 2017 and is still pending regulatory approval.

Licensing revenues contracted by 38% to £12 million at constant exchange rates and fell by 26% as reported, due to the planned expiry of licenses in Japan as Burberry moved to direct retail operations in the country.

Geographic Segment Sales (Retail and Wholesale)

Asia Pacific: Stripping out currency effects, sales edged up by 1% to £659 million and bounced by 19% as reported. Comps saw low single-digit percentage growth in the region, but Mainland China delivered high single-digit percentage growth. Comps declined in Hong Kong, impacted by negative footfall, and in Korea, due to macroeconomic factors as well as the company's efforts to reduce promotional activity in the country.

EMEIA: Sales grew by 5% at constant currency to £536 million and jumped by 16% as reported. Comps were up by double-digit percentage figures. Burberry emphasized continued strong performance in the UK while sales in continental Europe, particularly in France, improved during the half. The Middle East remained challenging, according to the company.

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Americas: Sales dropped by 10% at constant exchange rates to £400 million, but rose by 7% in reported currency. Burberry noted that the strength of the US dollar boosted sales to American customers abroad, but that demand at home declined. The company's actions to protect the brand's position in a highly promotional environment also contributed to the decline.

Outlook

Burberry maintained its outlook for FY17 adjusted pretax profit. The FY17 revenue consensus estimate stands at £2,770 million, implying annual year-over-year growth of 10.1%. Analysts expect operating profit of £445 million, implying a year-over-year increase of 16.1%. The FY17 consensus EPS estimate is 76 pence, implying a year-over-year increase of 8.6%.

For FY18, Burberry expects no contribution from new net space as it will focus on its current store footprint. Its pending deal with Coty is expected to have a neutral impact on FY18 pretax profit and be accretive from FY19. From 2H18, Burberry will move its beauty division to a licensing business model from its current wholesale model. This is expected to lessen wholesale revenues by a mid-single digit percentage. Licensing revenues are expected to grow by about 20% year over year, in FY18.

The company will announce full-year preliminary results on May 18, 2017.

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