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Presentation

Operator

Hello and welcome to the Superdry Full-Year Pre-Close Trading Update Analyst Conference Call. Throughout this, all participants will be in listen-only mode. And afterwards there will be a question and answer session. And just to remind you, this call is being recorded. So today, I'm pleased to present Euan Sutherland, CEO and Nick Wharton, CFO. Please begin.

Euan Sutherland

Thank you very much. Good morning everybody and thank you for joining today's call. As always, I'm joined by Nick Wharton and also Ed Barker, who joined the company in April, will take over from Nick in July.

Overall, I'm really pleased with our performance over the last year against what is a challenging broader consumer environment globally. The headline number show brand growth of plus 23.3% in Q4, which is another strong global multi-channel growth quarter for us.

Our growth has been consistent at the total brand level with all territories growing brand revenue. Full-year brand growth at plus 22.1% year-on-year with the half year of plus 19.5%. This is powered by the focus in e-commerce and wholesale, our capital-light channels. Those divisions continuing to perform well with wholesale representing now over 60% of our brand revenue globally.

This has led to another year of anticipated double-digit PBT growth with guidance of £96.5 million to £97.5 million for the year. We've made progress across every aspect of the business and in all territories, and we have sharpened our focus on our global digital brand strategy. We continue to diversify our overall business model across geography, channel and category.

In turn, we are lessening our individual reliance on any individual market or sector. As we outlined at our last Capital Markets Day in September, this means investing in and growing our capital-light channels of wholesale and e-commerce. These channels are consumer-focused, high-growth and truly global, which will continue to improve our already high ROCE.

Our model and approach means we can switch channels rapidly to meet changing consumer needs across the world. Focusing now just for a few minutes on recent progress against the four elements of our strategy, we continue to strengthen awareness and perception of the brand through integrated digital marketing activity, and this summer we will reinforce the brand global positioning even further through alignment with our two of our customers' core passions, music and sport.

Our SuperdrySounds campaign of summer festivals will continue to support emerging music talent creating strong bond between Superdry and our consumers' interest in music, generating engaging content that we will amplify across our social media platforms. We are very proud to be partnering the UK Invictus team. We delivered the first milestone of our commitment as official clothing supplier at the recent selection trials and will ramp up our involvement in marketing as we progress towards the games in Sydney this October, driving a step change in awareness of our Superdry Sports apparel credentials.

Progress against our world market opportunity continued with the rapid expansion delivered through our capital-light channels. We opened 75 franchise stores in the period, a 24% increase year-on-year, including eight standalone Superdry Sports stores, which are exceeding our performance expectations.

On top of that, we've built wholesale key relationships in eight new markets including Hungary and Vietnam and launched additional localised e-commerce sites in the US and Switzerland taking us to a total of 23. China and the US continued to represent significant opportunities for the brand with our China business on track to become profitable by the second half of FY20 in with previous guidance.

Performance in the US was negatively impacted by several factors in FY18, and Nick will explain in more detail the three principal factors for that. But our underlying progress is encouraging and we exit the year well-placed to drive good growth through our wholesale and e-commerce channels in the US this year.

Product and innovation remain at the heart of Superdry and form the key part of our DNA. We have seen another quarter of balanced growth across men's wear and women's wear, and our focus on relentless innovation was evident through our range of down jackets, which meet the highest ethical standards at price points below £100. On top of that we saw a sustained strong performance in our core categories such as graphic tees, polos and sweats. And the introduction of our snow and sport ranges continue to drive market growth and customer awareness globally.

Our trading success is underpinned by a continued investment in our infrastructure and processes as we strive for operational excellence throughout the business and across the world. In the period, we successfully implemented the sterling Order Management System for e-commerce, made our US and EU distribution centres multi-channel, and, perhaps most significantly, completed the broad number of systems and process developments, which will lead us to consolidating our inventory pools of retail and wholesale this autumn on plan as previously guided.

I'm going to hand over to Nick now to run through the numbers in detail and I'll come back and summarise in a few minutes. Nick?

Nick Wharton

Thanks, Euan, and good morning everybody. Today's update confirms our trading performance for the final quarter and also includes the second half and full year. And as always, I'll walk through the announcement flushing out the numbers where we believe helpful.

I'll start with addressing the impact of currency on our sales performance, which in the fourth quarter at overall a 60 basis points tailwind is similar to that in the third quarter. However, it's noteworthy that due to the strengthening of sterling against the US dollar, FX did become a headwind to sales in stores while remaining a benefit to wholesale.

Group brand revenues, which are reflective of the total retail sales prices paid by our consumers, grew by 23.3% in the quarter driving a 22.1% increase on a full year basis to give an overall global brand revenue of £1.6 billion. From a channel perspective, in line with our 5.0 Strategy, this growth continues to be driven by our capital-light channels.

Taking each of those in turn; wholesale sales grew by 29.6% with a similar Q4 exit rate, in part supported by clearance activity linked to the wider inventory rebase, which will continue until the end of the current summer season. In terms of growth, we've always described this is coming from both commercial expansion, but also the benefit of ongoing process improvement. Having been chasing successfully down this process improvements for the last three years, further gains are likely to be less material and this is reflected in our forward guidance that I will cover later.

Within e-commerce, we saw a sales growth of 25.8% for the full year and again finishing strongly with a 18% growth in the fourth quarter. This exit rate was achieved despite the challenges from the coincidence of the launch of all spring summer ranges with a sustained period with seasonally cold and wet weather. Store sales were up 3.4% on a full-year basis with the second half and in particular the final quarter, which saw revenues reducing by 6% coming under pressure.

This pressure reflects the ongoing practice of a consumer preference to our high growth e-commerce channel and a challenging consumer backdrop with a more contained impact from the adverse weather conditions previously mentioned. Within this broader weather story, we estimate that the three bouts of snow in our key territories contributed about 2% to the overall store sales decline in the fourth quarter.

Finally, in terms of channel performance, I should also highlight that during the Q4 closed process, we identified an offsetting allocation between the group's e-commerce and store channels, which impacts the previously disclosed revenue performance for the third quarter of FY18, but limited only to these two channels. To be clear, there is a net zero impact to both group and total retail revenues, but the corrected channel growth values for the third quarter would be e-commerce at 25.4%, where we previously disclosed 30.5% with stores growing at about 4.8% previously 3.1%.

Now to gross margin. Gross margin performance is really a continuation of the drivers we discussed at the half year. Being channel mix, the wholesale and investments made through planned clearance activities to rebase our inventory levels. Overall, we anticipate that gross margins will decline by approximately 200 basis points year-on-year with dilution from the wholesale growth of just over 100 basis points and inventory clearance activity being of a similar order offset in part by smaller intake margin and FX benefits.

As you will recall, our inventory rebase programme seeks to reduce carrying levels of stock by about six weeks cover by the end of the summer of 2018; and that the consequent efficiencies would offset the margin impact during the period of stock reduction. To date, we are on track against both of these goals with closing inventory expected to have only increased by low single digits year-on-year compared to a 16% increase in revenues.

And finally, joining us in terms of profits, our guidance for the year is from an underlying PBT of between £96.5 million to £97.5 million. The midpoint of this range would represent a headline group level profit around 11.5% year-on-year. Excluding the impact of our development markets in the US and China and the cost of migrating our W&D[?] operations to new distribution centres, core profit would increase by over 12% year-on-year. This is ahead of our underlying profit growth due primarily to the losses of around £3 million we are now expecting in the US, which primarily reflects significant sales disruption experienced in six stores.

These six stores represent approximately a quarter of our USC[?] states and were the largest single drag on performance negatively impacting profit by about £1.5 million. Other factors including investments to bring our wholesale operations in-house as well as delisting some online grey trade customers to protect the health of the brand both in the US and also globally for the long term.

Turning finally to guidance and looking ahead to FY19. We remain confident on our long-term growth opportunities and fundamentally remain confident in delivering double-digit profit growth. In terms of the key drivers of earnings, we expect to generate high single-digit statutory revenue growth led by continuing mid-teens growth in our capital-light wholesale and e-commerce channels. And both of those are in line with the ambition outlined at the Capital Markets Day.

Balanced against this, we are planning more cautiously regarding both new owned space deployment and underlying store sales while we roll out our next generation store format. Specifically, in terms of new owned space, we expect we will only open stores that meet our payback criteria with headroom while we will confirm our space guidance in July. This is anticipated to reduce from the current about 8% to around 5%, but this will be compensated by continued expansion of franchise stores as Euan have said at about 20% growth per annum, and an acceleration of lower cost refits to existing stores.

Two of our pertinent factors include the recovery of some trajectory in the US, and secondly, we will also deliver on our commitment to future operating efficiency leading to moderate operating margin expansion in line with the 20 to 50 basis points guidance outlined in September. That completes my summary and I'll hand back to Euan.

Euan Sutherland

Thank you, Nick. And just in conclusion, FY18 has been a further strong year of operational and financial progress as we develop Superdry into a global digital brand. Another year of double digit sales growth and profit growth in what is a challenging global consumer environment. We benefit from clear brand positioning, agile infrastructure that serves our global consumers through truly multi-channel proposition and increasing operational excellence.

This multi-channel proposition means consumers can choose how they want to engage with the brand, which is core to our proposition, allowing them to switch easily between our stores and digital and capital-light channels. We're confident that Superdry's reputation for quality, design, detail and strong value for money underpins our continued investment in the business and leaves us well placed to maintain consistent double digit earnings growth for the future. So, with that, we will pause and open up for any questions that you have. Thank you.

Q&A

Operator

Thank you. Ladies and gentlemen, if you wish to ask a question, could you please press zero and then one on your phone keypad now in order to enter the queue. And then after I announce you, simply ask that question. And if you find that question has been answered before it's your turn to speak just press zero and then two to cancel. And there will be a brief pause while the questions are being registered.

Our first is over the line of Jana Mistri[?] at Deutsche[?] Bank. Please go ahead. Your line is now open.

Speaker

Good morning, guys. I've got three questions. And the first one is on your PBT guidance for full year 2018. And given the underlying PBT range, it seems in my estimates you must have seen some significant operating leverage in the second half. Can you give any more colour around this at this stage?

And my second question; even after the snow disruption at 300 basis points, it seems store like-for-like has still slowed quite significantly in the third quarter. And again, can you get more colour around what you think is driving this? Thank you.

Euan Sutherland

Yeah, we can, Jana. Thank you for that. I'll hand over to Nick in terms of the operation, the update on that. I think on the just headlining that, it was always our intent to begin to demonstrate the operational leverage in the business as we came through the back end of FY18 and you start to see that coming through. And that continues into the guidance for FY19, but I'll leave Nick to kind of fill in some of the details there.

I guess like-for-like, we've got a multi-channel proposition and we're kind of channel-agnostic as to where consumers will shop from us. We worked very hard over the last three or four years to build a platform which is truly global and truly multi-channel. I think for me in Q4, yes, you're right, we've seen a slowdown in the store like-for-like; I guess two or three pertinent impacts, some of those quarters particular. The key snow weeks were an impact and I think that was one of those areas where being a big European business wasn't the greatest thing because if it was snowing hard in the UK, it was even more disruption across Europe and also the East Coast of the US.

The spring-summer season has been very, very slow to start. It's only really started beyond the guidance period that we're giving you now. But we're seeing consumers switch to more digital channels and that has been accentuated within our business because we rolled out the e-commerce proposition that we have enjoyed in the UK to all of our European territories during the end of the first half and the beginning of the second half of the last financial year.

In short, that meant that our European customers now have a greater flexibility to access the brand through digital channels than they've ever had. So, there is a continued move towards that. We think that's right for the long term and therefore we will continue to invest and you will see us investing even more in the e-commerce channel in the year ahead. But that will mean that we see some switching away from physical stores.

We have got a relatively small number of global physical stores and flexibility in the lease profiles of those stores going forward. Nick, do you want to cover more operational leverage?

Nick Wharton

In terms of the leverage, Jana, you're absolutely right. If you recall from the Capital Markets Day, the source of that leverage is broadly two-fold. Firstly, we talk through our whole work that we're doing in terms of increasing the efficiency in our design process, so our central processes, meaning that we having invested significantly in that internal capability over the last three years, that actually our head office constituent of growth would slow down, and that would give us some operating leverage in the head office space.

More materially, you'll recall that we committed when we talked about the reduction in inventory is that essentially on a pound-for-pound basis, the efficiencies in the sales and distribution aspects of our business would cover the margin investment we're making to reduce that inventory. That comes through essentially in terms of store labour, in terms of processing stock and warehousing and distribution costs in terms of processing that. And that has come through.

And so, the intention and the ambition was always clear and we were confident that reducing the level of stock without impacting availability to our customers would drive material efficiency, and we've just started to come through in the second half year as you have observed.

Speaker

Great. Thanks, guys.

Euan Sutherland
Thanks a lot.

Operator
Okay we now go over to John Stevenson of Peel Hunt. Please go ahead. Your line is now open.

John Stevenson
Good morning, guys. Two questions from me please. Back on the like-for-like, I'm afraid also it's quite an eye-catching number. Could you maybe talk about – I mean appreciate – no point pulling out – a single week or particularly small areas, but is there a better indication of what the underlying run rate is maybe looking at the exit rate once some of the one-offs were out or any point to territorially that would give a slightly better read of how we should think about store like-for-like going forward?

And secondly, just in terms of the relative profitability of online versus store sales. I know you talked about in the past. Maybe you can just reiterate the profitable nature of the online sales?

Euan Sutherland
Yes. So, first one is pretty difficult to do just because it's just hard to separate out accurately. And I don't want to give you a wrong number. Certainly, the Q4 seen a slowdown from where we would expect the store like-for-like to be. We'd seen slow negatives in the store like-for-like as we went through the first half, that continued into kind of Q3 bridging into Q4.

It kind of feels mid-single digits kind of negative is probably a sensible place if you were going to try and pick a number. So, I think we've been adversely affected. The key thing for us though John is the move to capital-light, which we drew out at the Capital Markets Day. The significance of our investment into e-commerce and wholesale, the significance of the continued double digit growth that we're seeing there shows the brand is healthy; is very consistent across all global territories. And as I said in my update we have seen brand revenue growth positive in every territory across the world, which includes the home territory.

So, there is a bit of mixing for us. There is clearly a mixing that our consumers are doing. They're still digesting the brand very positively. And even though you would kind of say, well, what's the difference between our own stores and our franchise stores; what we're seeing is given the global nature of the brand, the specific benefit of having a very strong set of franchise partners in local markets means they get the range edit more accurate than we do.

From here, it's more tailored to individual markets and the platform for sell-out, if you like, through franchise multi-brand wholesale, etc., is a better mix. So, that for us continues to very strong returns given the very light capital touch we put into those channels, allows us to switch investment from physical stores where we see the rest of the world all suffering the same pattern and move it into an accelerated development of our e-commerce and wider digital platforms.

And digital for us, just as a footnote, it doesn't just mean e-commerce. It means the whole automation of the business. So, everything from 3D design, avatars being used and shared with our factories, speed of response etc., so kind of end-to-end on that. But I think it's – I think our guidance reflect the fact that we always wanted to be cautious. It's still double digit earnings growth. It's still pretty high revenue growth, but we are in a world which is seeing a switch between physical and the digital and selling environments. So, I think that's I hope is a bit of colour and help on that. Nick, do you want to?

Nick Wharton
In terms of the profitability of the e-commerce channel, we've always talked about the tipping point of scale. And we're now at a point where essentially with e-commerce being about 20% of our group revenues. We're at the point where we established a material channel where we can start getting some decent cost leverage on there. So, where we are is now on a absorbed basis. E-commerce is slightly more profitable than the stores on an absorbed basis.

Naturally, we always have to remind that in the short term, our most profitable sale is of walk-in like-for-like to an existing store. But on an absorbed basis, we're now at a point where there is accretion from transfer of sales into online. If you look at the big constituents elements of that, the margins between stores and e-commerce are broadly similar because we run a consistent global promotional programme across all of our channels or brand purposes.

Obviously, the warehousing distribution is materially greater than it is in a store because we're sending small parcels to the large number of locations. And also, the marketing cost of online is substantially higher than that the group average through customer acquisition and social media activity. We also then have a reasonably large central team focused on essentially development which is Opex that we talked about before, but that is still materially lower than the fixed cost and carrying cost of the store base, so now at a place where on a fully absorbed basis is probably accretive.

John Stevenson
Okay, brilliant, that's really helpful. Thanks Nick.

Nick Wharton
Thanks John.

Euan Sutherland
Thanks John.

Operator
We now go to the line of Michelle Wilson at Berenberg. Please go ahead. Your line is open.

Michelle Wilson
Hi, good morning. A few for me. First of all, just looking at the high single digit revenue growth guidance you set for next year; if you kind of back it out between the channels, assuming mid-teens wholesale about 15%, online at 18%, that leads store growth flat basically at 0% and like-for-like it looks minus 3.5% to minus 4%. How do you kind of get to that store like-for-like number? What gives you comfort so that would be the like-for-likes over the year ahead? Should I get them all at once?

Euan Sutherland
Yeah, if you could please?

Michelle Wilson
Okay. Second question; in terms of the refurbished stores, that you've done this year, what kind of performance are you getting out of those stores now and what kind of gives you comfort thus continuing to refurbish that store space is the right use of capital.

Third question is on surplus cash returns. I think you talked previously about committing to returning cash to shareholders where you see a surplus. Has anything changed from the results that you seen over the last few months? And when are we likely to get an announcement around that surplus cash return? And then final question just on the new stores, I think you said openings at 5% basis[?], you said openings space you've been opening this year, and what kind of leases are you signing up to there and how long are the lease lengths? And also, when you're getting rent renegotiations at the moment, are you seeing any decreases in rental costs?

Nick Wharton
I'll give – there's a lot of interconnectivity between those questions. So, I'll give it a go and then Euan will chip in. So, in terms of new stores, we've always said that the maximum lease length, and this has been true over the last three years, that we would commit to is five years. We'll trade additional flexibility in that as part of the overall lease arrangement where we are – as a reminder we're looking for a material contribution from the landlord to get a bit of relationship between essentially the rent and the turnover as well as a relatively short lease duration, and we'll play those off. But we won't sign a lease that is more than five years without a break that is for the tenant.

In terms of the point around in terms of rent reviews and lease expires, we are in a place where we're starting to see some element of rent reduction on lease expires. So, that is coming into the mix as we move forward and we have an increasing number of lease expires and renewals over the next few years as Euan has already said.

In terms of that components of store contribution, you're right mathematically that if you do our guidance for capital-light channels at around flat, you'd come to around 9%. So, there's a number which is around that kind of number. The premise for this being cautious. It is the channel that is most difficult to read. And at that level it would imply negative like-for-like as you say with our reduced space guidance of that low single digit.

We – part of that is caution in terms of the levers that we will pull. We will continue and probably accelerate our refurbished store programme. But we will again do that in a capital-light way. So, if you recall, we had an – Ondial[?] is our first next generation concept that that we were rolling out. That's still demands relatively high capital investment for us. So, what we've been doing more recently and we've done in the last six months is actually to look for a more capital-light version of Ondial.

It introduces the key aspects of the Ondial format, but also looks to be more directly link in a digital way. The store experienced through our online experience, but we do that with a Capex requirement which is materially less than that for an Ondial. And below that, as Euan has said, there were some key principles we can actually learn from our smaller stores and indeed from our franchise partners in terms of localised ranging and also introducing in a very light touch way again some of the key concepts like category blocking that we would have as a fundamental in the next generation concept.

The short version of that is we're likely going forward to look to touch more stores from a refit perspective in a lighter way rather than doing a small number of large interventions on key stores. And I guess that's the single point and it still is has the foundation of the success we get in terms of sales uplift from the ten or so stores that we've done into the Ondial format this year, but enables us to touch the store portfolio in a broader way.

And that's a constituent to essentially a like-for-like recovery from what would be the exit rate. Back to John's previous question, it's difficult to call the exit rate because of the number of moving parts if nothing else what is demonstrably a slow start to the spring season.

Finally, in terms of surplus cash, we will update in terms of our view on that at the prelims in July.

Michelle Wilson
Great, thank you. Just two quick follow-ups. In terms of the rent reduction you're getting on renegotiations, can you quantify that at all? And also and you talked about reducing store roll out and lighter touch refurb; does that mean we should expect Capex to come down next year?

Nick Wharton
To the latter point, yes, broadly although we will increase our investment in two aspects of digital. Firstly, ongoing further investments in the e-commerce experience both front-end and backend. And secondly to Euan's point about digital being not just about essentially e-commerce but a way of thinking and operating across the business. We'll be introducing an automation into our distribution centres extending the trial of things like RFID in terms of that throughout the supply chain.

So, there will be a bit of a trade-off there. But in broad terms we would expect our Capex requirement to be slightly lower than historic norms. And the first question I'm sorry I have forgotten. Rent, is this the rent? To be honest, it's highly variable, and at the moment a little bit limited to the UK. So, it's a small population. So, it's really too early to draw a mean in terms of that population.

But in terms of the direction of travel, I think we're starting to see I guess what the market is seeing in terms of an overall space demand and the quality of that. Although I would say we are in the top end intentionally of locations across the world in particular in the UK. Therefore, our deflationary benefit may be slightly lower than the market average.

Michelle Wilson
Okay, very helpful. Thank you.

Nick Wharton
Thank you.

Operator
Okay. We're now over to the line of Sanjay Vidyarthi at Canaccord. Please go ahead.

Sanjay Vidyarthi
Morning. Just one question for me on the reduced space growth guidance for the year ahead. Does that apply to any particular markets? What do you think you may be opening fewer stores than previously you thought? And second, is there any store

closure incorporated within that guidance?

Euan Sutherland
So, no, it's not market-specific, Sanjay. We've always been cautious in getting the right capital discipline into our new stores. That's serving us well in the overall profitability of our stores. So, we're applying an even stricter capital discipline globally. So, you still see even on those – on that reduced guidance stores opening in the EU and in the US, which are our two territories that we were focusing on previously. It's just more selective and compensated as we said with more franchise store openings. They tend to be more Eastern Europe and rest of the world-focused. So, we're seeing good growth from that investment.

Nick Wharton
In terms of space reduction, we'll look at that on an individual case-by-case basis where we do have even very stringent criteria for renewing a lease, which demand more flexibility, shorter lease, etc. We'll do that on a case-by-case basis. I would emphasise that we don't have a long tail or indeed a tail of underperforming stores. But as well as that, we will continue as we've done over the last couple of years to just manage the portfolio to maximise its value and minimise risks. So, there maybe be some opportunities we take as we have more lease renewal opportunities.

Sanjay Vidyarthi
Okay. Just to follow-up to that. Longer term, how are your franchise partners thinking about the online channel when they're opening stores?

Euan Sutherland
Yeah. So, great question. We have got an increasing synergy between our in-country online e-commerce offer proposition promotional programme with our wholesale partners and in particular our franchise partners. So, we've extended – in previous updates, we've updated the iKiosk[?] technology, which allows our franchise partners to access the total range which sits on our e-commerce platform. We're now putting lots of synergy into the sales proposition, joint promotion if we do any in-country across franchise.

So, e-commerce in that sense is not a threat to our franchise partners if that's where you're going with it. It is an added value benefit by tying together systems, processes, delivery and also the sharing of the benefits across the contracts that we've got with them. So, again, that's very consistent with being totally multi-channel and a global digital brand. So, you'd see that moving forward at the end of this year and into next year.

Sanjay Vidyarthi
And lease lengths are flexible enough particularly in Europe I guess to accommodate kind of the channel shifts over time?

Euan Sutherland
Yes.

Sanjay Vidyarthi
Okay. Thanks very much.

Nick Wharton
Thanks, Sanjay.

Euan Sutherland
Thanks, Sanjay.

Operator
Okay. Before we go to the next question, which is Lorena Russo[?], JPMorgan. If anyone has any final questions at this stage please do press zero and then one. So Lorena, over to you?

Speaker
Yes, good morning. First question has been answered. I've got two more question. The first one is coming back to your retail

performance in the Q4, can you be a little bit more specific in terms of the exit rate and the impact that you have had across geographies?

And secondly, how close are you with your wholesaler in terms of a say slowdown with them as well, and perhaps leading to higher inventory and, I don't know, an excess inventory being in the channels?

Nick Wharton
Okay, I'll take those starting with the retailing in Q4, and I assume you mean stores in that. So, our headline performance in the fourth quarter was minus 6. And the one point within the overall weather impact in that fourth quarter that we can isolate is the impact of snow, and that impacted all of our key territories. It was at its most severe in the EU, then the UK, and there was an impact in terms of East Coast US.

Isolating that, that's probably about two percentage points of that, about minus 6. And we've also got an FX drag, as I said in my commentary, of about half a point in terms of the dollar impact on store revenues in the fourth quarter. So, you go 6 minus 2.5 gets you to 3.5 is a point there. Our new space when we deployed is usually about 70% productive historically in its first year. The new space this year is slightly less productive than that because of the participation of the two West Coast stores that are under-tenanted that we talked about in January and indeed in November.

So, if you're adding back probably about 7%-ish for new space, you get to a like-for-like number on an underlying basis, which is probably around the 10% number. What that doesn't make any adjustment for, because it's very difficult to isolate, is the impact of an inclement weather, cooler, wetter, etc., through the start of the spring summer selling period.

So, some portion of that move from what in Q3 was mid-single digits negative like-for-like to a high single digits negative like-for-like in stores is the spring summer, but there is, as you said, those continuing trends of consumer preference and the strength of our e-commerce proposition that's in there.

In terms of wholesale, we get good indications of weekly sales data from within our wholesale business, and which we can match against essentially selling to give us an indication of sell through. And while as you would expect, it has been challenging for our wholesale partners in the early part of the spring summer season than it has been for us. Actually, we've still got a decent part of the season ahead of us.

And looking at weather patterns in the UK and Europe, they are improving and forecast would more clement over the balance of the period. Sufficient to say, there is enough selling window ahead of us. That at the moment, we are not seeing any indications for us or our wholesale partners in the main of stock overhangs that is a problem for them as they go through.

Speaker
Okay, thank you.

Nick Wharton
Pleasure.

Operator
Okay. We are now over to the line of Wayne Brown at Liberum. Please go ahead. Your line is open.

Wayne Brown
Good morning, guys. Just a few questions from me. On the impairments, you're clearly accelerating your refurb programmes. If you can just give us a view of this is there going to be any accelerated depreciation that we should expect from that. And then clearly there was an impairment for your flagship store in Berlin? Are there any other underperforming stores, which could be at risk from the time of the order where there could be other non-cash impairments? I suppose that's question one.

The second question is outlet stores, particularly in Europe, what necessarily percentage of the estate is represented by outlet stores? And also in respect of sales, how should we be thinking about the mix of outlet stores as we look into spring-summer and beyond, and just the view necessarily on the promotional activity within the market, because clearly Q1 would have impacted all retailers, and missing them at the beginning of spring summer probably indicates that maybe margins could be under pressure across the sector as a whole as people trying to sell through their inventory, slightly later in the season.

Just a view one on gross margins, your mix of promotional activity versus full cross sales and of course that outlet sales point would be helpful? Thank you.

Euan Sutherland

Okay, thanks, Wayne, so just picking up the other one first, it's about 10%-11%. I was just getting the exact number for you across Europe, and the position going forward is flat. So, there's not a particular growth in our outlet channel in any parts of the world.

Impairment, that's really centred around Kranzler. Nick, you want to pick up, there's no other stores that are going to fall into that guidance.

Nick Wharton

So, on impairments, as I said before, we don't have a long tail of underperforming stores. However, we do view all of those stores to ensure that they don't require any impairment. It is fair to say that we have the odd store that has a small impairment, which we absorb within our underlying profit, but nothing material over the last couple of years.

Kranzler is different in terms of it's a very different investment model to the ones that we would now sign up. The store was approved in the early parts of 2015. So, as I said, in terms of a store now we're looking for it to have a tight footprint of between 4000-6000 square feet. That would give a higher intensity in terms of sales. It would have a short lease. There would be a relationship between the turnover and the rent in the stores on a variable basis.

And there would be a contribution from the landlord towards store entry costs. Kranzler doesn't really fits any of those criteria. It is large. It is a prominent location that carries an appropriate rent for that location, and has disappointed in terms of our targeted intensity. It is does require impairment because of those factors being completely out with the Capex approval we would have now. It is a one-off. It's been treated as non-underlying.

All of our impairments of standard stores would be taken through our underlying performance. And, as I said before, there on the odd occasion, there is a small level of impairments. Other flagship stores, which in reality is only really Regent Street's and maybe 34th. 34th was approved well into the process of tighter capital discipline. And Regent Street as we talked about before we get to work very, very hard. It is a prominent location, but has multiple floors of intensive retail together with our global wholesale showroom and also our own offices and third party offices; so, no impairment requirement on that store because we work it very hard.

Wayne Brown

Okay. And accelerated depreciation on the new refurbishments that you said you're going to be focusing on?

Euan Sutherland

No, that's all part of in terms of the investment model. So, the bigger bet in terms of the drag on, the OP in the year is actually the disruption to the store while it is being remodelled rather than any accelerated depreciation.

Wayne Brown

Okay. And then just also that point in full cross sales probably versus promotion would be helpful. I suppose just in guides[?] obviously in the next reporting today as well I just get a good feel of how you saw that mix in the quarter gone by, but also just a view on looking into 2019 and how we should be starting to think about the margin movements there.

Nick Wharton

Okay. In terms of the full price against sales mix in Q4, I don't have that number in front of me. But I can get back to you during the balance of the day and give you an indication of that. As Euan have said, that promotional mix of end of season clearance activities have some two-fold kind of activity and then activity around the high days limited in our world to a 20% activity is where we are going forward. And out with the extra investment this year to reduce the inventory on a one-off basis, it's pretty consistent year-on-year.

Wayne Brown

Okay, thank you.

Euan Sutherland

Thanks, Wayne. If there's no other questions, then we should bring the call to a close. And we'll be around all day and happy to answer any follow-up questions. Thank you everybody for being on the call unless there's any other questions coming through.

Operator

Two have just come through. One is over to the line of Kate Calvert at Investec. So, Kate please go ahead. Your line is open.

Euan Sutherland

Hi Kate.

Kate Calvert

Actually, I got two questions, actually having them one. The first question is on your guidance FY19. Would you be disappointed if you reported negative in store like-for-likes given, obviously, you will be up against weak comps, you got the refurb activity and the brand is pretty immature within Europe. So, I'm just trying to get an understanding as to why your guidance it is quite cautious there.

And the second question is on the US and the three million losses you're now guiding to in FY18. How should we think about the profitability of the US going forward? Would you expect to be profitable in FY19 or do you think it might now take slightly longer to move into profit?

Euan Sutherland

Okay, thanks, Kate. Two good questions. I think I guess two face[?] for the like-for-like, and so, one, we always try to be cautious with all channels. I mean that's evident in our continuing guidance on wholesale for example at mid-teens when the team keep coming in with kind of plus 30s.

We never want to see any channel being a negative, so that's not our ambition. There's just a realism in the channel switching that we can see with our consumer base. And the relative sophistication of our e-commerce proposition globally. And that will extend. And we've seen that switching happened in Europe in the second half. So, there's a mix in there by being realistic about the market in general where consumers are shopping and digesting our brand and others alongside some offsetting factors of the refits are a good thing to do in the stores that we're doing and we're seeing improvement. But some cautious guidance in there. So, I guess to take from that what you will in terms of where we would like it to be. We were just always cautious in any channel, but always striving to over-deliver.

The second bit was in the US. Yes, as Nick outlined, the three reasons for the slight dip in the improvement in our trajectory in the US; one is a slightly out of our control and slightly an indication of physical retail in the US, to be honest, where we've seen stresses even in the top 100 malls as mall operators change some of the use.

And given that we've got quite a small physical estate there, even a small number of disruptions has a bigger impact in a short term. So, I think those will run out. And then the other two reasons for the slight dip, we think our sensible medium and longer term investments, i.e., we pulled in-house the wholesale operation that will allow us to gain greater and more profitable growth faster in the short to medium term in the US wholesale business.

And the third one was an e-com reason, which we outlined I guess better the detail on that where we had some grey traders who were individually buying larger lumps of stock that we could then identify and then they were shipping to Asia, which being a global business wasn't helpful for our Asian partners. So, we've taken proactive action there. So, a number of shorter term impacts we still see big opportunity in the US and in China both of those markets long term profitable. So, a return to kind of a small profit would be kind of a sensible kind of place to be I think.

Nick Wharton

Yeah, I think where we are is obviously – Euan's articulated a number of reasons that some of the drags in the current year will reverse. We have to balance that against – we're at the point now where we have a significantly material US business that it needs to be slightly more self-sufficient of the UK than it currently is requiring investment; and also, at a point where it's longevity we start to invest more significantly in the brand which requires a slightly different activity in the US than it may be in

Europe. So, some reversal and recovery of trajectory towards profitability is probably the guidance that we would give.

Kate Calvert
Okay. So, I'm taking from that you're not expecting to be profitable in FY19? [inaudible] parts and then you pull back really, to be honest.

Euan Sutherland
It's a small delta negative and it will be a breakeven small delta positive. So, I think where we're kind of looking for that.

Kate Calvert
Fine, clear, and thank you. And just coming back to Euan to the first question in terms of you obviously talked about quite a bit of channel shifting in Europe in terms of impacting the store like-for-like. Would your like-for-like performance have been worse in Europe or in the UK, because it sounds it's like being a big change to switching between channels as you've improved your proposition in Europe.

Nick Wharton
Kate, taking Europe as a whole, there is not a massive difference between the UK and the whole of Europe. Some winners, some losers as you'd expect in the fourth quarter, doesn't appear to be a massive distribution[?] – Well, everything is a massive distribution[?] between UK and the group.

Kate Calvert
Okay, thank you.

Operator
Okay. We have one final question and that's back to the line of Michelle Wilson at Berenberg. Please go ahead. Your line is now open.

Michelle Wilson
Hi. And just one follow-up from me. Just in terms of the channel mix of your revenue growth, when we talked about potentially being kind of minus 3.5% to minus 4% store like-for-like? Is such channel mix actually a lot more weighted into e-commerce as we see in the current year? What impact would that have on profitability? Would you still be able to achieve double-digit profit growth?

Euan Sutherland
It depends on the materiality of that shift in foreseeable variables around that. That would drive further efficiency into the business and therefore I think the answer is probably yes.

Michelle Wilson
Okay. Can you quantify any range around store performance and e-commerce performance – double digit earnings for us is still achievable?

Nick Wharton
We haven't quantified that. We're probably likely to pull a little bit of flesh on the bones on that at the prelims where we're trying to give a bit more clarity on probably the flexibility of our channel proposition and also the flexibility of our store base, but no, we haven't got that numbers at hand.

Michelle Wilson
Okay, great. Thank you.

Euan Sutherland
Okay, thanks Michelle.

Operator
As that was the final question for today. Could I pass it back to you for any closing comments at this stage?

Euan Sutherland
Thank you. And as I was highlighting before, we are around all day. And beyond that, if you have any other follow-up questions, happy to take those, and we'll see all soon. Thanks so much.

Nick Wharton
Thank you.

Operator
This now concludes today's call. Thank you all very much for attending and you can now disconnect your lines.