Equity Valuation – Burberry Group PLC

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Abstract

This dissertation had the purpose of performing an equity valuation for Burberry Group PLC, to achieve a fair value of the British company's stock.

This process was developed by recurring to two different valuation models: the Discounted Cash-Flow Valuation Model and the Relative Valuation Model. By combining the current share price from both models, it was possible to achieve a final share price of £23.67 as of 29th March 2022. Based on this share price, it is recommended to HOLD Burberry's stock. A sensitivity analysis and a scenario analysis were also conducted to account for the current social and economic uncertainty mainly caused by the Covid-19 pandemic. Therefore, different possible scenarios that can affect the company's share price were considered.

Finally, it was performed a comparison with an equity valuation report conducted by the analyst Adam Cochrane, from Deutsche Bank. The Deutsche Bank's report provided a final recommendation to HOLD the company's stock based on their target price of £22.76 as of 25th January 2022.

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Abstrato

Esta dissertação teve como objetivo realizar uma avaliação do capital próprio da empresa Burberry *Group PLC*, de forma a alcançar um preço justo e ponderado da ação da empresa britânica.

Este processo foi desenvolvido recorrendo a dois modelos de avaliação diferentes: *Discounted Cash-Flow Valuation Model* e *Relative Valuation Model*. Ao conjugar o preço da ação dado por cada modelo de avaliação, foi possível alcançar um preço final de ação de £23.67, a 29 de março de 2022. Com base neste preço de ação, é recomendado manter as ações da *Burberry*. Posteriormente, foram também realizadas uma análise de sensibilidade e uma análise de cenários de forma a ter em conta a atual incerteza social e económica causada maioritariamente pela pandemia Covid-19. Dito isto, foram considerados diferentes cenários possíveis que poderiam afetar o preço da ação da empresa.

Por último, realizou-se uma comparação com um relatório de avaliação do capital próprio conduzido pelo analista *Adam Cochrane*, do *Deutsche Bank*. No relatório do *Deutsche Bank* é fornecida uma recomendação final para manter as ações da empresa tendo por base o preço-alvo de £22,76, a 25 de janeiro de 2022.

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Introduction

A company's share price and its evolution represent a fundamental indicator of a company's current financial health while giving a preview of the future potential value of the company based on its fundamentals and on what investors believe to be the fair value of its stock.

To get a plausible and well justified share price it is essential to fairly evaluate the respective company and for that, it is necessary to recur to certain valuation models that allows us to evaluate companies based on their financials primarily and on possible factors that can significantly affect the growth projections of the company in the long term.

Essentially, this was the aim of this thesis, to evaluate Burberry through two different valuation models: Discounted Cash-Flow Valuation Model and the Relative Valuation Model that combined produced a fair share price of the British company taking into account the macroeconomic outlook, the luxury industry outlook, the current financial metrics of the company and the growth projections of the company. Besides that, this equity research reported contains a Literature Review, a brief Company Overview, a Sensitivity Analysis, a Scenario Analysis, a SWOT Analysis, a Porter's Five Forces Analysis and a Balance Sheet Forecast.

Moreover, it was done a comparison between the valuation model developed for this thesis and a valuation performed by the analyst Adam Cochrane from Deutsche Bank to compare the assumptions made and the target share price obtained.

Literature Review

The value of a company can be estimated through a wide diversity of methods and the decision of choosing a certain valuation method over another is an important matter to a company since it can bring future significant implications to the organization itself and, consequently, to its results.

To value Burberry Group PLC were used two distinct valuation methods: firstly, the Discounted Cash Flow Valuation Model and secondly, the Relative Valuation Model.

Discounted Cash Flow Valuation Model

The DCF Valuation method is used to estimate the current value of a company based on its expected future cash flows while recurring to a discount rate that reflects the riskiness of the cash flows.

$$PV = \sum_{t=1}^{t=n} \frac{CF}{(1+r)^t}$$

PV = Present Value of the future Cash Flows

CF = Cash Flow for the year t

t = certain period

r = discount rate

n = number of years considered in the valuation

Based on this formula it is possible to evidence that to achieve a value for this company through this method it will be needed an estimation of the future cash flows of the company and a discount rate.

Dividend Discount Model

$$P_0 = \sum_{t=1}^{t=\infty} \frac{E(DPS_t)}{(1+k_e)^t}$$

P_0 = Price at year 0

E (DPS_t) = expected dividend per share in year t

k_e = cost of equity

This model represents one of the simplest ways of estimating the value of a company, by computing the value of the respective stock through two key inputs: expected dividends and cost of equity.

There are two versions of this model: the Gordon Growth Model that is used when the dividends' growth rate is considered to be stable and the Two-stage Dividend Discount Model that, initially, considers the dividends´ growth rate to be unstable and afterwards, is expected to be stable for the long-term horizon.

The main reason on why this model will not be considered for Burberry´s valuation is the fact that doing a company´s valuation only based on dividends and its growth can lead to misleading results since the company can be paying an amount of dividends that is too little/big compared to its cash capacity, which would underestimate/overestimate the company´s value (Damodaran, 2013).

Free Cash Flow Models

Two different approaches can be used in the DCF valuation model when discounting the cash flows from the forecasted period. Firstly, it can be considered the cash flow available for the entire business after all operating expenses and reinvestment needs which results in the Free Cash Flow to the Firm. Moreover, there is also the option to use only the equity share of the business, by excluding the non-equity claims from the business value which lead to the Free Cash Flow to Equity.

Free Cash Flow to the Firm

It represents an alternative to both DDM and FCFE to value a company however instead of valuing its equity, it values the enterprise. The business value is obtained through discounting the free cash flow to the firm at the WACC while capturing the tax benefits of debt and the additional risk associated with it (Damodaran, 2006). This approach was used as part of the DCF Valuation Model in order to compute the intrinsic value of Burberry.

Free Cash Flow to the Firm = EBIT

- EBIT (1 – Tax Rate)

+ Depreciation

- CAPEX (Capital Expenditures)

- Δ NWC (Change in Net Working Capital)

Free Cash Flow to Equity

The free cash flow to equity model is considered to be an alternative to the DDM in the sense that both provide estimates of value for equity being the main difference the fact that potential dividends are discounted rather than actual dividends. It represents all the remaining cash flow after settling all the reinvestment needs and debt payments (Damodaran, 2006).

Free Cash Flow to Equity = Net Income

+ Depreciation

- CAPEX (Capital Expenditures)

- Δ NWC (Change in Net Working Capital)

+ (New Debt Issued – Debt Repayments)

- (Preferred Dividends + New Preferred Stock Dividend)

Terminal Value

As previously explained, the Discounted Cash Flow model estimates the value of a company by recurring to the present value of the expected future cash flows. However, since it is not possible to continuously estimate future cash flows for a company, a terminal value is used to secure the value of the company beyond its forecasted period.

TV = $\frac{FCF_n(1+g)}{(r-g)}$

g = perpetuity growth rate

r = discount rate (usually, it is used the WACC)

n = last year of the projection period

FCF = Free Cash Flow for the last projected period

Adjusted Present Value

The APV approach represents an alternative to the conventional approach of computing the value of a business. In this approach, it is used the value of the firm with only equity financing while considering separately the tax benefits from borrowing and the associated bankruptcy costs (Damodaran, 2006).

$$Value\ of\ Business = Value\ of\ Unlevered\ Firm + PV\ (Interest\ Tax\ Shield)$$

$$-PV\ (Bankruptcy\ Costs)$$

The first step will be to compute the value of unlevered firm which can be done by discounting the expected free cash flow to the firm at the unlevered cost of equity (Damodaran, 2006).

$$k_e = k_u + \frac{D}{E}(k_u - k_d)$$

$$Value\ of\ Unlevered\ Firm = \frac{FCFF_0\,(1+g)}{k_u - g}$$

Afterwards, it is possible to compute the expected tax benefits from a certain level of debt by discounting the tax rate of the firm in order to quantify the riskiness of the cash flow (Damodaran, 2006).

$$PV\ (Interest\ Tax\ Shield) = \sum_{t=1}^{t=\infty} \frac{Tax\ Rate_t * \ Interest\ Rate_t * Debt_t}{(1+r)^t}$$

Due to assumptions of the APV approach, the previous formula can be simplified and presented as:

$$PV\ (Interest\ Tax\ Shield) = \frac{Tax\ Rate * Cost\ of\ Debt * Debt}{Cost\ of\ Debt} = t_c D$$

The last step is to reflect the level of debt on the default risk of the company and consequently, on the possible bankruptcy costs (Damodaran, 2006).

$$PV\ (Bankruptcy\ Costs) = (Probability\ of\ Baknruptcy) * (PV\ of\ Bankruptcy\ Costs)$$
$$= \pi_a BC$$

It is in this last step of the equation that lies the problem and the main reason why this method was not used in this report, which is the fact that neither the probability of bankruptcy nor the present value of bankruptcy costs can be directly estimated (Damodaran, 2006). There are analysts that prefer this method rather than a DCF valuation due to the fact that APV allows to analyse and treat each component separately, preventing from being buried in adjustments to the discount rate (Luehrman, 1997).

DCF Valuation Model – Main Elements

Growth Rate

Regarding the growth rate, according to Damodaran (2013), there are three distinct ways of estimating growth in earnings:

- Historical growth in earnings per share
- Look for other analysts' growth estimates in earnings per share
- Analyse the fundamentals of the firm, by comparing the investment made in projects and the returns retrieved

Cost of Equity

The cost of equity should be higher for riskier investments since company´s equity investors will demand higher rates of return to compensate the risk that they are taking (Damodaran, 2013).

There are several models that can be used to compute the cost of equity such as:

- CAPM
- APM
- Multi Factor (Fama and French)
- Proxy

Considering, probably, the most known and used model, CAPM, mainly because its more objective and practical when computing the required rate of return, it is possible to evidence only three necessary inputs (Damodaran, 2013):

$$E(R_i) = R_f + \beta_i[(E(R_M) - R_f]$$

$E(R_i)$ = Expect return of asset i

R_f = Risk free rate

β_i = Beta of asset i

$E(R_M)$ = Expected return of the market index

For the Multi Factor model, it is well known the three-factor model of Fama and French (1993) and most recently (2015), it became known an update of this model, the Fama and French five-factor model. This model was created to show how sensitive is the expected return of an asset to the market return and to four value-weighted portfolios that represent different risk factors (Fama and French, 2014).

$$E(R_i) = R_f + \beta_i^{market}[(E(R_M) - R_f] + \beta_i^{size} E(SMB) + \beta_i^{value} E(HML) + \beta_i^{profitability} E(RMW) + \beta_i^{investment} E(CMA)$$

SMB = difference in the average return of nine small portfolios and nine big stock portfolios

HML = difference in the average return of two value portfolios and two growth portfolios

RMW = difference in the average return of two robust operating profitability portfolios and two weak operating profitability portfolios

CMA = difference in the average return of two conservative investment portfolios and two aggressive investment portfolios

Although the five-factor Fama and French model delivers a better predicting variation in excess return over the risk-free rate than CAPM, since CAPM delivers consistently satisfactory results and usually, it's the most common model used by analysts to retrieve the required return, this will be the method used to compute the cost of equity of Burberry (Fama and French, 2015).

Risk Free Rate

The risk-free rate represents expected return from a security that has no default risk and no reinvestment risk attached to it. Since there aren´t riskless assets, the available instruments that are closer to be riskless will be the yields of long-term (10 years or more) debt instruments issued by stable governments (Damodaran, 2013). Although usually the US T-Bonds are used

as riskless securities, since Burberry is a British company, it was decided that UK Gilts (10-year) would be selected as the risk-free instrument.

Beta

The beta corresponds to slope of the regression of stock returns against market returns and reflects the riskiness of stocks and consequently, the cost of equity. Then, a higher beta will represent a riskier stock and a higher required rate of return from equity investors (Damodaran, 2013).

After retrieving the beta of the business in which the company belongs, there is an adjustment for the operating leverage that results in the unlevered beat of the firm. Afterwards, there is an adjustment for the financial leverage of the firm that will result in the levered beta (Damodaran, 2013).

For the adjustment considering the financial leverage, two methods can be used: the conventional approach and the debt adjusted approach.

In the conventional approach, the beta of debt is zero, since it is considered that the debt doesn't carry any risk:

$$\beta_L = \beta_u[1 + ((1 - t) * \frac{D}{E}))]$$

For the debt adjusted approach, the beta of debt is accounted for the estimation of the levered beta:

$$\beta_L = \beta_u[1 + ((1 - t) * \frac{D}{E})] \text{ - } \beta_{debt}((1 - t) * \frac{D}{E})$$

Thereafter, the bottom-up beta can also be computed to reflect the changes in the firm´s business and financial leverage (Damodaran, 2013).

$$\beta_{LBU} = \beta_u[1 + ((1 - t) * \frac{D}{E}))]$$

Equity Risk Premium

The market risk premium represents the difference between the market´s expected return and the risk-free rate (Koller et al., 2005). Since the market´s expected return is unobservable and the level of risk aversion is considered to be stable throughout the past century, historical excess returns can be used as a proxy (Koller et al., 2005). From the end of 2003 on, the market risk premium has been under 5% as per Koller et al. (2005). For Burberry, it was used the weighted average Country Risk Premium for the Western Europe region, utilizing World Bank GDP estimates for the most recent year by Aswath Damodaran. The market is assumed to be correct in the aggregate, justifying the choice of current implied risk premium.

Country Risk Premium

The country risk premium reflects the premium that needs to be paid to investors for them to invest in a specific foreign country. The premium depends on the country´s default risk, implying that a higher premium will be paid if the country is riskier (Koller et al., 2005).

Since Burberry has a global portfolio, being present in several countries (59) from different continents and, consequently, with distinct default risks, the premium is considered to be null because the country risk is diversified.

Cost of Debt

The cost of debt reflects the rate at which a company can borrow taking into account both the default risk and the level of interest rates in the market (Damodaran, 2013). If the firm have long term straight bonds that are liquid and widely traded then, their yield to maturity can be used as the cost of debt (Koller et al., 2005). Burberry became a bond issuer on 21 September of 2020 when the British Group issued £300 million Unsecured Sterling Sustainability Bonds with a coupon rate of 1.125% due 21 September 2025. Being that said, since Burberry hasn´t

issued any other bonds, it felt unrealistic and unreasonable to use the yield to maturity of only bond as the cost of debt. Therefore, a synthetic rating based on the interest coverage ratio was created in order to attribute a corresponding default spread to the firm and consequently, proceed with the sum of the default spread and the risk-free rate resulting in the cost of debt (Damodaran, 2013). After proceeding with the calculations, it was achieved a dubious result for the cost of debt, being an almost null value, which ultimately led to the use of Moody's credit rating instead of the interest coverage ratio to achieve the default spread and consequently, a valid cost of debt.

Weighted Average Cost of Capital (WACC)

The WACC represents the expected return on an alternative investment with a similar level of risk (Koller et al., 2005). Debt and equity are expressed on a market basis and the cost of capital should always be computed taking into account target weights in order to avoid supporting the WACC estimate in the current capital structure of the firm that may not resist the entire life of the business. By using the current capital structure, the firm may incur in the risk of overestimating the tax shield when the leverage is expected to drop as the exact opposite may also happen (Koller et al., 2005).

$$WACC = \frac{D}{V} * r_d(1-t) + \frac{E}{V} * r_e$$

$\frac{D}{V}$ = Debt to Value ratio

r_d = Cost of Debt

$\frac{E}{V}$ = Equity to Value Ratio

t = effective tax rate

r_e = cost of equity

Relative Valuation Model

According to Damodaran (2002), the Relative Valuation method is based on the premise that the value of an asset is compared to the market value of alternative but similar assets. However, since it is not possible to compare absolute values, the market value of these assets needs to be transformed into standardized values in the form of price multiples (Damodaran, 2002). This method can assist the DCF valuation method making it more accurate, being a complementary method and not an alternative.

There are certain characteristics that a company needs to have in order to be considered a plausible comparable firm towards the firm being analysed. The most common aspects that need to be taken into account are growth rates, ROIC and the company´s structure itself.

Afterwards, there are two types of multiples that can be chosen to proceed with the valuation: forward-looking multiples and enterprise-value multiples. The forward-looking multiples are considered to be more accurate in predicting the value. On the other hand, enterprise-value multiples are basically independent from the capital structure and already incorporate the effect from nonoperating gains and losses which are the two problems that forward looking multiples face.

Being that said, combining both types of multiples, three price multiples were chosen to allow to compare the value of Burberry with its peers' value: the Price to Earnings ratio, the Enterprise Value to EBITDA ratio and the Price to Book ratio.

P/E ratio

The P/E ratio is determined by two key elements: the price per share of the company and the company´s earnings per share. Usually, this ratio is used by analysts when forecasting growth values because there is empirical evidence that shows that the P/E ratio is positively related to long term expected growth (Leibowitz and Kogelman, 1990, 1991, 1992). Knowing that this ratio only compares companies with identical capital structure, it allowed to quantify the growth potential of Burberry having into account the median value of the P/E of the respective peers and, consequently, to conclude if the company is overvalued or undervalued.

EV/EBITDA ratio

For this ratio, the two key determinants are the enterprise value and the earnings before interest, taxes, and depreciation. In certain cases, this ratio is preferred to the P/E ratio because it allows for comparisons between companies with different levels of financial leverage by looking into the value of the firm and its cashflows (Damodaran, 2006). By excluding debt costs, taxes, and accounting measures (depreciation), EBITDA allows to have a more clear and optimal value of the financial performance of Burberry and, consequently, to quantify the value of the company given by the EV/EBITDA ratio.

Price to Book Value ratio

The use of the multiple Price to Book Value ratio, allowed to measure the firm's market valuation compared to its book value. Due to the intense relationship between Price to Book values and Return on Equity, this ratio is considered to be relevant to conclude if there are misvalued securities, with a low Price to Book ratio and a high ROE and vice-versa (Damodaran, 2006). The extracted ratio regarding Burberry's peers reveal that the stocks are on average trading at premium compared to their respective book values.

Excess Return Models – Profitability Methods

According to Damodaran (2006), in this type of valuation method, growth is only considered to have value when it is followed by excess returns. Therefore, excess return models recur to a separation of the cash flows into two different elements: excess return and normal return cash flows. Following that, the value of a company is estimated by two key variables: the current capital invested in the company and the present value of excess return cash flows from all the investments. These models will allow to conclude that if a company registers positive excess return cash flows, then it will trade at a market value superior to the book value, being the opposite also a valid premise (Damodaran, 2006). The two major examples of excess return models are the Residual Income Model and the Economic Value Added.

Residual Income Model

The Residual Income Model is based on three key elements: earnings, book value and dividends. It attempts to estimate a firm´s residual income after adjusting the expected earnings by excluding dividends and other equity expenses. According to empirical evidence, the Residual Income Model, and the Discounted Cash Flow valuation model, if implemented properly, due to the fact that are theoretically equivalent, deliver similar results. However, according to Ohlson (2000), the original author of the model, there are significant problems related to this model, such as "on a per share basis clean surplus will not generally hold if there are expected changes in shares outstanding"; "an all equity approach does not work if the firm plans to bring in "new" shareholders who derive a net benefit from their capital contributions" and " GAAP violates clean surplus because some capital contributions are not accounted for in market value terms". These were the reasons why this model was not considered for the valuation of Burberry.

EVA - Economic Value Added

According to Damodaran (2006), this model aims to reflect the added value or surplus created by an investment or a portfolio of investments. The key elements of this model are the return on capital that results from investment(s) made by the companies, the cost of capital for the investments and the amount of capital that the companies invested in these projects.

This model is highly dependent of the several adjustments that can be made when measuring the key elements of the model. Therefore, it can be difficult to use this model to compare firms' performance since the results given by the model are strongly subjective to the adjustments chosen. Concluding, that was the reason on why this model was not chosen to evaluate Burberry.

Industry Overview

Macroeconomic Overview

Prior to analyse the current trends that have been affecting the luxury goods industry, it is essential to give, firstly, a macroeconomic outlook for 2021. Being that said, it is inevitable to talk about the Covid-19 pandemic that has been affecting the entire world for the last 2 years. Although most of the countries already show high vaccination rates and the Covid-19 infection rates have been decreasing worldwide, due to the more recent outbreak of new variants of the virus such as the Omicron variant, the pace and effectiveness of the recovery process showed in the beginning of 2021, ultimately decreased.

Despite that, it is possible to state that last year's financial and social recover registered in developed countries was significant, having had a positive impact in reversing some of the negative impacts of the pandemic. This recover was boosted by the implementation of financial policies that had the purpose of revitalizing the economies and, at the same time, by the monetary support from international organizations.

Contrarily, in emerging markets, it was registered a slower and weaker recover mainly due to the less capacity of implementing the vaccination process and, at the same time, due to the negative effects that have impacted the economies which slowed down, even more, the developing process that was being conducted in the pre-Covid-19 period.

According to data collected from the World Bank Group, the Real GDP is expected to register a 4.1% global growth in the end of 2022. The advanced economies such as the US, Euro Area and Japan should register a similar growth to the global growth, of 3.8%.

In comparison with 2021, it is expected a decrease of the recovery pace of the economies in advanced economies mainly due to the resurgence of Covid-19 in the form of the new and fast-spreading Omicron variant that had significant impacts in lockdown measures and consequently, on the economic activity. Besides that, the rise of inflation, the increase of volatility in prices of commodities, the job market being heavily affected are all conditions that are restraining these economies from a faster recovery. On the other side, the solid consumer demand and level of exports are two positive factors that are helping to rebuild the economies.

The emerging markets and developing economies such as the BRIC should have a 4.6% growth, emphasizing India with a growth projection for the full year of 2022 of 8.7%.

Applying the same reasoning that was made for developed economies, it is possible to state that this year's decreasing recovery pace registered in emerging markets in comparison with 2021, was mainly caused by the poor levels of output and investment in most of the emerging economies. The perfect example to represent the fragile situation that several developing economies are facing is China. Although being considered to be one of the strongest economies in the world with a nominal GDP of almost $15 trillion in 2021, it also has been strongly affected by the negative impacts of the pandemic that aligned with the tight regulations that the country has been recently facing in various sectors of its economy, resulted in a decrease of its economy's rebound pace from 8.1% registered in 2021 to a growth projection of 4.8% in 2022, according to Fitch Ratings.

Although the global short term projections seem to be positive there are still multiple global challenges that can slow this recover, being most of them already factors that are holding back the pace of recovery whether in advanced or emerging economies, such as the obvious possibility of having new mutations of the virus that could led to new lockdown restrictions and consequent worsening of the economic scenario of the countries affected by it, the rising inflation that continues to flood the economies since mid-2020, the significant costs from climate disasters and also the impact of losses in the job market that occurred during the pandemic, among others.

Industry Analysis

Burberry PLC belongs to the Personal Luxury Goods industry, that includes all types of premium products such as watches, cosmetics, apparel, bags, jewellery, and accessories.

Considering a sample of the top 100 luxury goods companies in terms of revenues, it is possible to state that this industry had been growing at a GAGR of around 8% (2016-2019) before the Covid-19 pandemic has hit the global economy. Nowadays, the estimated CAGR for the short term (2022-2025) is expected to reach around 5%, according to Statista (2021).

In 2021, the industry was valued at $309.6 billion which represented a rebound of approximately 30% compared to 2020, that had been the year characterized by a significant sales contraction due to the Covid-19 pandemic. The main factors that contributed to this rebound were the rebound of the Chinese demand for this type of products, the continuous

developing of the online sale channel and the increasing relevance of the Gen Z and millennials in this market that is expected to make up around 70% of the market in the short term.

Aligned with the global market, the US also registered an expected return of 5% in the end of 2021 compared to the pre-pandemic levels of 2019, according to McKinsey (2021). This recover was not very significant due to the ongoing growing relevance of the Chinese market in the luxury segment which has a negative impact in the American share of the market.

Europe is expected to still have lower levels of return in the end of 2022 compared to the pre-pandemic levels of return registered in 2019, according to McKinsey (2021) mainly due to the reason previously stated for the US, the resurgence of the Chinese consumer's spending in luxury markets located in China.

Peers Analysis

It was important to determine Burberry's Industry Peers in a trustworthy manner to situate it accurately among competitors. Therefore, criteria were set for the selection process:

The selected firm is required to have a product portfolio similar to Burberry's, namely male and female fashion, including at least apparels, bags, jewellery, sunglasses, beauty and cosmetics products, travel accessories, and, with minimal deviation in terms of other offerings such as liquors, beverages and watches.

The company is required to generate luxury goods sales comprehended between 25% and 175% of Burberry's revenues in this segment. This criterion limits the range through a size factor, avoiding comparison with significantly bigger or smaller firms.

The business' net profit margin is required to be comprehended between 6% and 11%. This criterion limits the range through a measure of profitability, selecting firms with a similar ability to effectively control its costs and provide goods or services at a price significantly higher than its costs and, avoiding enterprises characterized by aggressive pricing associated to different business strategies or mismanagement.

Considering these factors and having into account that Burberry accounted for $3536 million in luxury goods sales in FY2019[1] while producing a net profit margin of 12.47%, five industry peers were chosen to be able to proceed with the analysis:

Ralph Lauren Corporation - is an American fashion company based in New York City, US. It produces, markets and distributes a wide range of apparel, home products, accessories and fragrances from mid-range to luxury segments. The company utilizes directly operated stores through the e-commerce channel and concession stores, and international licensing partners in order to push its products into the market. It is internationally present across the three main regions (Americas, EMEIA, Asia Pacific).

Product Portfolio - Apparel, Home products, Accessories, Fragrances
Luxury Goods Sales FY2019 - $6 313 million
Net Profit Margin - 6,83%

Capri Holdings Ltd - is a luxury lifestyle retail company that designs, markets and distributes ready-to-wear products and accessories. The company operates a global distribution network focusing on retail stores, department stores, specialty stores and licensing partners, also selling products online through several e-commerce websites

Product Portfolio - Jewellery, Footwear, Eyewear, Sportswear, Apparel, Accessories, Fragrances
Luxury Goods Sales FY2019 - $5 238 million
Net Profit Margin - 10,35%

Hugo Boss AG - is a premium and luxury fashion and accessories manufacturer based in Metzingen, Germany. The firm operates online stores across Europe, U.S.A and China and conducts operations in Europe, the Americas and Asia Pacific.

Product Portfolio - Sportswear, Apparel, Footwear, Leather Accessories, Fragrances, Eyewear

[1] The year of 2019 was used for the comparison between Burberry and its peer' group since it was the last year in which the financial metrics from the considered companies were not affected by the Covid-19 pandemic, showing a more realistic outlook of them.

Luxury Goods Sales FY2019 - $3 228 million
Net Profit Margin - 7,12%

Tapestry, Inc. - is an American multinational luxury clothing holding company based in New York, US. The company provides a wide range of products being most of them leather accessories, handbags, shoes, etc through directly operated stores and sales to wholesale consumers and also through independent third-party distributors.

Product Portfolio - Footwear, Handbags, Leather Goods, Accessories
Luxury Goods Sales FY2019 - $6 027 million
Net Profit Margin - 10,68%

Philips-Van Heusen Corporation - is an American fashion manufacturer based in Manhattan, New York City, US and it is considered to be one of the largest fashion companies worldwide. Besides its own directly operated stores, the company also distributes its products directly to customers through outlet stores. PVH Corp. also provides products to many other stores such as David Jones, Belk, Amazon, etc.

Product Portfolio - Apparel, Accessories, Footwear
Luxury Goods Sales FY2019 - $8 076 million
Net Profit Margin - 4,42%

Company Overview

Burberry Group Plc was founded in 1856 by Thomas Burberry with the single purpose of designing outdoor apparel that could protect the population from the bad weather that, nowadays, still characterizes the United Kingdom. Later on, the company developed its target market to the high fashion design, producing more exclusive products which led the British company to, ultimately, integrate the luxury goods industry.

Currently the British holding company is headquartered in London, England. The company's operations are concentrated in three main segments – Retail, Wholesale and Licensing. Burberry engages in designing, producing, and merchandizing luxury apparels and accessories for women, men, and children worldwide. The firm distributes its product through a rich and diversified retail, wholesale, and licensing network under its trademarks. Furthermore, it conducts its operations through physical stores (Burberry boutiques), outlets, franchises, concessions, and E-commerce platform, including its official website and marketplaces such as Farfetch, Net-a-Porter, Selfridges, among others.

Regarding to Burberry's key products, the most recognized product is its famous trench coat that was designed, in the 1890s, for soldiers that were in trenches during the First World War. The trench coat was based on the first version of the gabardine that was invented by Thomas Burberry in 1879 and gained more popularity, after the war, when it started to be used by celebrities and movie stars that ultimately reshaped the product as a fashion item. Besides Burberry's classic and famous trench coats, the company's main products include apparels, bags, scarves, jewelry, wallets, card cases, sunglasses, beauty and cosmetics products, baby and toddler product and travel accessories.

Geographically, it has multiple business branches across the world – Europe, Middle East, Asia Pacific, India, and Africa (EMEIA), the United States and Pacific Asia. According to the company's annual report of 2021, that reported data until the 27th of March of 2021, the company operated 214 mainline stores, 145 concession stores, 56 outlets, and 44 franchise stores. In the reported period of 2021, Asia Pacific total reported sales revenue equaled £1,203 millions, representing 52% of the company's total revenue, followed by Europe, Middle East, India, and Africa (EMEIA) region with £628 million (27%), and Americas with £475 million (21%). There is also an upward trend of in terms of digital channels, as the firm empowers its products' sales through e-commerce platforms over the past years, in which it is currently selling

at 44 countries online. The brand suffered its most relevant transformation after 2006 thanks to its new CEO at that time, the American Angela Ahrendts, when the company was shrinking with a growth of just 2% compared to 13% of its industry, as it was explained by the CEO herself in an interview conducted by Harvard Business Review in 2013.

During the last fiscal year, Burberry's accessories represented the highest segment, accounting for approximately 37% of the total revenue, followed by men´s fashion (29%), women´s apparels (28%), children, beauty, and others (6%). In 2021, the Retail/Wholesale segment generated £2,306 million in sales revenue, accounting for 98% of the total sales. The Lincensing business segment, which includes receipt of royalties from global licensees of eyewear, timepieces and children swear, reported £38 million in sales revenue, accounting for 2% of the company's total revenue in 2021.

As for the company's peers, Burberry does not constitute a leading brand but rather a fierce competitor due to the presence of companies such as Hermès International, LVMH and Dior, which account for the highest market capitalizations in the industry, generating between approximately 4 to 30 times Burberry's luxury goods' sales, respectively. With that being said, the firm's direct peers are mid-high-end luxury & fashion retail companies such as PVH (U.S.), Hugo Boss (Germany) and Capri (U.K).

Figure 1 - Revenue per segment 2021

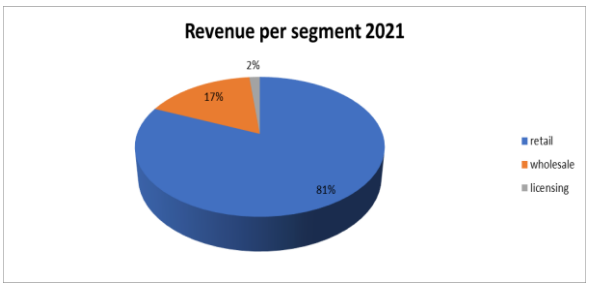


Figure 2 - Revenues per region 2021

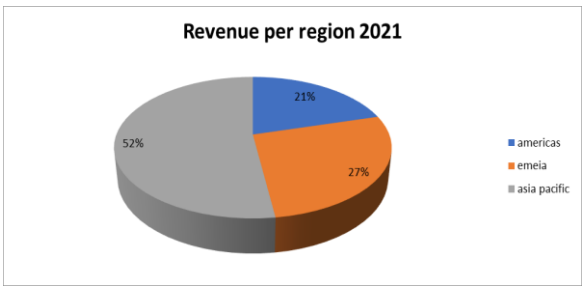


Figure 3 - Number of stores per region 2021

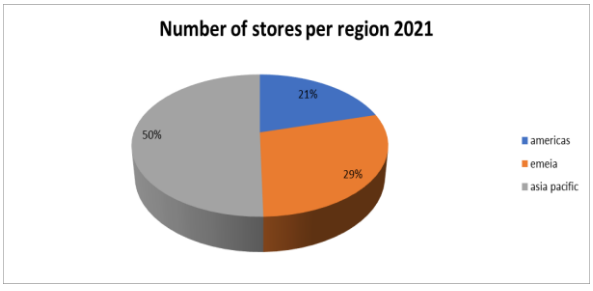
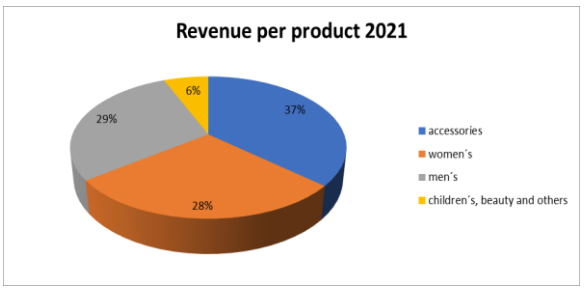


Figure 4 - Revenue per product 2021



Capital Allocation

According to its Annual Report 2020/21, Burberry's priority is to use the cash that was generated by the company's activities by allocating it to the investment needs of the company, such as the store portfolio, supply chain and ESG related initiatives, and also to the dividend payments and the additional returns to shareholders.

During the FY 2020/21, Burberry registered an increase of 37% of the cash available compared to the FY 2019/20 with the purpose of protecting and ensuring the liquidity of the company during the current pandemic situation.

Covid-19 effects

Although the Covid-19 pandemic had brought negative effects to the company such as the closure of stores worldwide and consequent reduction of the workforce, the reduction of pace of the sales growth and the increase of competition due to the significant decrease of market demand, it also allowed the company to define more clearly and efficiently what should be its focus and strategy in both short-term and long-term.

This strategy will be heavily influenced by four topics that are currently trending in the luxury goods industry and that already have a significant impact on the market and should continue to have in the long-term: China, Gen Z and Millennials, Online sales channels, and Sustainability.

It´s a matter of time for the Chinese market to become the biggest luxury market worldwide and a prove of that was the fast rebound that it had following the lockdown effects that resulted from the positive response of the Chinese consumers' demand by being able to maintain the positive momentum that existed prior to the pandemic and surpass the pre-pandemic sales levels.

For that, the Gen Z and the Millennials had a significant role since the young consumers represented the generation that was able to maintain the level of demand more closely to pre-pandemic levels despite the negative economic effects that were felt worldwide. Even before the Covid-19 pandemic, the Gen Z and Millennials already belonged to the group of consumers that was leading the demand for luxury items. This trend should continue its positive evolution in the following years since the purchasing power of the young consumers, naturally, should

also increase. According to Burberry's expectations, "young consumers are now expected to drive 180% of growth between 2019 and 2025, and to reach a 65%-70% share of the luxury market by 2025".

Another trend that has been registering through the past years is the progressive growth of the online sales channels. This growth was accelerated by the Covid-19 pandemic that because of the lockdown measures, didn´t allowed the traditional physical interaction between clients and stores' employees and, consequently, contributed to the necessity of having an alternative sales channel that would be efficient and practical. Being that said, the share of sales done through the online channel grew significantly and is expected to reach around 30% until 2025 (Burberry, 2021).

The last topic is related to sustainability (ESG) due to the growing awareness that consumers have been developing towards social problems, that was reinforced by the recent health pandemic. The young generation is the group of consumers that is more concerned with the social issues which, because of its significant impact on sales levels as previously stated, clearly reflects the importance of this type of agenda to Burberry.

Performance Indicators

To measure its performance, the Board of Burberry recurs to two types of indicators: non-financial indicators and financial indicators. Being that said, these were used to conclude what are the trends that have been characterizing the key performance indicators (KPIs) of the company for the past years and ultimately, what has been its growth trend.

Non-Financial Indicators

Firstly, relatively to the non-financial indicators, according to its most recent Annual Report (2020/21), there are measures being used to evaluate the employees and responsibility departments. For the employees, Burberry has been able to show positive indicators in terms of employee engagement quality with a score of 75% (Glint Index) and the number of women to perform leadership roles that already accounts for more than half of them (52%). Regarding the Responsibility department, the main focus has been reducing the CO_2 emissions from the operational process which has resulted in a decrease of 92% throughout the past 5 years. Besides

that, the substantial increase of the use of sustainable materials in production and also the increase of people positively impacted by programs promoted by Burberry's foundation for the past years are also indicators that reinforce the positive performance of the company in the ESG-related matters.

Financial Indicators

For the financial measures there are several indicators that can be used to evaluate the performance of the company. According to its Annual Report 2020/21, Burberry recurs to revenues, operating profit, and capital efficiency indicators to quantify and qualify its performance for the past year and to compare it with pre-pandemic levels.

Revenues Growth

As for the revenues, although for the past 5 years, the company was already showing a negative trend of this indicator, the FY 2020/21 was the first year that registered significant negative results which clearly reflect the negative impact that the Covid-19 pandemic had in the business mainly because of the lockdown measures that contributed heavily for the closure of stores, having resulted in a decrease of 10% at CER in 2021.

Adjusted Operating Profit Growth and Margin

The adjusted operating profit had a decrease of 8% at CER in 2021 continuing the negative trend that had started in 2020 caused by the health pandemic. This decrease was not as significant as the reduction evidenced in the revenues' growth due to the combination of tight reduction of costs that the company had to incur in and a slight improvement of the gross margin. Consequently, this resulted in an improvement of the adjusted operating profit margin in 50 basis points.

Adjusted Group ROIC

The year of 2020 was marked by the addition of the IFRS 16 when measuring ROIC since prior to that it was measured on a retail/wholesale basis. Being that said, since 2020 it started to be computed on a Group basis (Burberry's Annual Report 2020/21). The Adjusted Group ROIC suffered a decrease of 3 percentage points in the past year comparing with 2020 because of the increase of the effective tax rate and also due to the reduction of the Adjusted Operating Profit, as stated previously.

DCF Valuation Model - Forecasting Process

The forecasting process was conducted through three main stages: firstly, the projection of the revenues growth during the forecasting period considered, that was followed by the forecast of the company's net income and finally, the free cash flow to the firm was projected for the next 5 years. All the assumptions made for each topic were explicitly stated in the following sections.

Revenues – Combined Impact

To project the revenues of the company as accurately as possible, it was decided to choose different variables that would have a significant impact on the revenues of the company both in the short-term and long-term and, ultimately, produce a projection of their growth in each region considering all these possible conditionings, being the current health pandemic, clearly, the most significant factor that was considered.

After performing a growth projection for each region, it was possible to compute a growth estimation for the revenues of the company in each region and ultimately, produce a growth forecasting for the total revenues of the company for the next 5 years.

Being that said, it was possible to conclude that Burberry's revenues should have a CAGR for the forecasted period (FY2022-FY2027) of 6.91 %.

Table 1 - Revenues - Combined Impact

Revenues - Impacts Combined

	2021	2022	2023	2024	2025	2026	2027
Revenues	2343,90	2667,57	2930,89	3115,69	3388,05	3674,88	3983,43
% Revenue Growth		*13,81%*	*9,87%*	*6,31%*	*8,74%*	*8,47%*	*8,40%*

Asia	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenues	1136,00	1256,20	1241,63	1224,41	1244,62	1180,42	1430,08	1626,71	1850,37	2104,79	2373,14	2675,70
Decrease in Stores							*-8,85%*	*-1,02%*	*-1,02%*	*-1,02%*	*-1,02%*	*-1,02%*
Recovery in Sales (Covid 19)							*15,00%*	*0,77%*	*0,77%*	*0,77%*	*0,77%*	*0,77%*
Increase in Sales (Digital)							*2,00%*	*1,00%*	*1,00%*	*1,00%*	*0,00%*	*0,00%*
Increase in Sales (Gen Z & Millenials)							*13,00%*	*13,00%*	*13,00%*	*13,00%*	*13,00%*	*13,00%*

EMEIA	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenues	831,35	902,34	912,96	896,21	819,33	677,75	710,96	738,69	701,00	720,11	739,74	752,51
Decrease in Stores							*-8,85%*	*-8,85%*	*-8,85%*	*-1,02%*	*-1,02%*	*-1,02%*
Recovery in Sales (Covid 19)							*5,00%*	*5,00%*	*-4,00%*	*-4,00%*	*-4,00%*	*-4,00%*
Increase in Sales (Digital)							*2,00%*	*1,00%*	*1,00%*	*1,00%*	*1,00%*	*0,00%*
Increase in Sales (Gen Z & Millenials)							*6,75%*	*6,75%*	*6,75%*	*6,75%*	*6,75%*	*6,75%*

Americas	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenues	547,35	607,46	578,21	599,58	569,15	485,72	526,52	565,49	564,32	563,16	562,00	555,22
Decrease in Stores							*-8,85%*	*-8,85%*	*-4,10%*	*-4,10%*	*-4,10%*	*-4,10%*
Recovery in Sales (Covid 19)							*10,00%*	*10,00%*	*-2,30%*	*-2,30%*	*-2,30%*	*-2,30%*
Increase in Sales (Digital)							*2,00%*	*1,00%*	*1,00%*	*1,00%*	*1,00%*	*0,00%*
Increase in Sales (Gen Z & Millenials)							*5,25%*	*5,25%*	*5,25%*	*5,25%*	*5,25%*	*5,25%*

Stores Impact

Table 2 - Stores Impact

Stores Impact

	2016	2017	2018	2019	2020	2021	CAGR (%)
Asia	220	213	204	194	199	209	-1,02%
Δ Stores	N/A	-7	-9	-10	5	10	
% of Total Stores	45,17%	45,42%	45,43%	45,01%	47,27%	50,36%	
EMEIA	161	153	150	142	131	120	-5,71%
Δ Stores	N/A	-8	-3	-8	-11	-11	
% of Total Stores	33,06%	32,62%	33,41%	32,95%	31,12%	28,92%	
Americas	106	103	95	95	91	86	-4,10%
Δ Stores	N/A	-3	-8	0	-4	-5	
% of Total Stores	21,77%	21,96%	21,16%	22,04%	21,62%	20,72%	
Total	487	469	449	431	421	415	-3,15%

Table 3 - Store Closure on Historical Figures

1) Store Closure based on Historical Figures

	Forecasted Years						
	2022	2023	2024	2025	2026	2027	CAGR (%)
Asia	207	205	203	201	199	197	-0,99%
EMEIA	113	108	104	100	96	92	-4,03%
Americas	82	79	76	73	70	67	-3,96%
Total	402	392	383	374	365	356	-2,40%

Table 4 - Store Closure based on Historical Figures and Covid-19 Impact

2) Store Closure based on Historical Figures and Covid-19 Impact

	2022	2023	2024	2025	2026	2027
Asia	191	189	187	185	183	181
EMEIA	109	99	90	85	80	75
Americas	78	71	68	65	62	59
Total	378	359	345	335	325	315

CAGR (%) 22	CAGR (%) 23	CAGR (%) 24	CAGR (%) 25-27
-8,85%	-1,02%	-1,02%	-1,02%
-8,85%	-8,85%	-8,85%	-5,71%
-8,85%	-8,85%	-4,10%	-4,10%
-8,85%	-6,24%	-4,66%	-3,61%

Assumption:

Due to the lack of data regarding Covid-19's impact on the luxury & fashion retail stores permanent closure, it was decided to recur to one of Burberry's direct peers, PVH corporation, as an Industry benchmark to perform the respective analysis.

By mid-2021, the group had closed 162 out of a total of 1830 stores around the world, accounting for a decrease of 8.85%.

For the first projected year (2022), the analysis considers a study conducted by Deloitte, in 2021, which forecasted the expected recovery for each region as well as the time this process will take. The Pacific Asia region (APAC) displayed the lowest Covid-19 impact on Personal Luxury Goods segment's value (-15%) while having the highest expected recovery on this segment in terms of sales (> 15%). Being that said, it is expected that this region should have the fastest recovery time, between 6 to 12 months (assumed to be 1 year).

On the contrary, both EMEIA and Americas regions had registered significant Covid-19 impacts on the value of PLG segment, being EMEIA the region with the highest impact (-30%) and Americas followed with a similar impact on value (-27,5%). EMEIA is expected to have a recovery in sales around 10% and Americas should follow that with a recovery around 15%.

Being that said, it is expected that EMEIA and Americas regions should have similar expected recovery periods however due to the slight better projections reported for Americas in terms of recovery, it should have an expected recovery period of 12 to 18 months (assumed to be 2 years) and therefore, EMEIA should expect a period of more than 18 months. After the recovery period, store closure patterns are expected to mean revert to historical figures.

Covid-19 Pure Sales Impact

Table 5 - Covid-19 Pure Sales Impact

Covid-19 Pure Sales Impact

	2016	2017	2018	2019	2020	2021	CAGR (%)
Revenues	2514,7	2766	2732,8	2720,2	2633,1	2343,9	-1,40%
Asia	1136,00	1256,20	1241,63	1224,41	1244,62	1180,42	0,77%
EMEIA	831,35	902,34	912,96	896,21	819,33	677,75	-4,00%
Americas	547,35	607,46	578,21	599,58	569,15	485,72	-2,36%

Table 6 - Recovery in sales due to Covid-19

Recovery in sales due to Covid - 19

	CAGR (%) 22	CAGR (%) 23	CAGR (%) 24	CAGR (%) 25-27
Asia	15,00%	0,77%	0,77%	0,77%
EMEIA	5,00%	5,00%	5,00%	-4,00%
Americas	10,00%	10,00%	-2,36%	-2,36%

Assumption:

In 2021, according to Deloitte analysts, each of the regions in which the firm operates expects a recovery in sales due to Covid-19, accounting for at least 15% in Asia, between 0%-10% in EMEIA, for which the average between the two values was selected, and between 10%-15% in Americas, for which 10% was chosen because of the proximity to the lower level of recovery (0%-10%) in the analysts' projection. These projection rates were considered for the first projected year of the analysis (2022).

Alongside that, to determine the recovery timespan for each region, this projection also considers the study conducted by Deloitte, in 2021, that was previously used to project the number of stores in the short-term for each region, while forecasting the expected recovery time for each region. Being that said, the Pacific Asia region displayed the fastest recovery time - between 6-12 months - assumed to be 1 year, while the Americas region registered an expected recovery time between 12-18 months and finally the EMEIA region should have a recovery time of more than 18 months.

After the recovery period, revenue patterns are expected to mean revert to historical figures.

HENRYs Impact

Table 7 - HENRYs Impact

HENRYs Impact

	Forecasted Years					
	2022	2023	2024	2025	2026	2027
Asia	13,00%	13,00%	13,00%	13,00%	13,00%	13,00%
EMEIA	6,75%	6,75%	6,75%	6,75%	6,75%	6,75%
Americas	5,25%	5,25%	5,25%	5,25%	5,25%	5,25%

Assumption:

In an age of fast changing trends, luxury companies have started to keep an eye on a new consumer class that is rising nowadays and is going to become increasingly relevant in the future: the HENRYs (High-Earners-Not–Rich-Yet). In addition, companies are committing to make significant investments in stimulating the interest of the younger segments of the population, namely Millennials and Gen Z: the customers of the future.

Burberry incurred in several initiatives to change its perception among Millennials and Gen Z, opening social retail stores, increasing social media engagement, using influencers as a cheaper and more effective marketing tool while launching exclusive collections such as the B Series and Monogram collections.

Therefore, sales are expected to be stimulated due to the major efforts that are being made in terms of acquiring this segment of clients, with Asia experiencing a faster growth due to its emerging process in terms of generated revenues in the past few years and a shift in youth culture, while EMEIA, although also expecting an increase along the forecasted period, it should do so at a slower pace.

According to Bain & Company it is expected that this group of consumers should drive 180% of the total expected growth in the luxury market until 2025.

Being that said, to quantify HENRYs' impact, it was considered an equal weighted impact on growth from 2022 until 2027, since, in 2026 and 2027, it is expected a similar impact to that evidenced until 2025.

Afterwards, in order to quantify the HENRYs impact by region, it was considered the share of revenues of each region to attribute a well justified weight to the impact of Gen Z and Millennials in each region, being Asia the region with the most significant impact registered.

E-Commerce Impact

Table 8 - E-Commerce Impact

E-Commerce Impact

	2021	2022	2023	2024	2025	2026	2027
Digital Sales (% of Total Sales)	14%	16%	17%	18%	19%	19%	19%

	Forecasted Years					
	2022	2023	2024	2025	2026	2027
Asia	2%	1%	1%	1%	0%	0%
EMEIA	2%	1%	1%	1%	1%	0%
Americas	2%	1%	1%	1%	1%	0%

Assumption:

With digital sales gaining major significance among all sectors amid the Covid-19 pandemic and, due to overall global trend shifts, McKinsey analysts expect this channel to represent 19% as a percentage of total sales by 2025.

The growth in digital sales is therefore spread along the period, with greater significance for the first two forecasted years due to the heavier impact of Covid-19, as seen in previous assumptions, and a slower growth for the remaining years until 2027, where it is expected to stagnate.

Net Income Forecast

After proceeding with the projection of the revenues for the next 5 years, growth assumptions were made for the remaining variables that were used to compute the company's net income, as it is stated in the following sections.

This ultimately produced a CAGR for FY2022-FY2027 of -1.20 % for the company's net income.

Net Income Forecast

Table 9 - Net Income Forecast

Net Income Forecast

							Forecasted Years					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenues	2514,7	2766	2732,8	2720,2	2633,1	2343,90	2667,57	2930,89	3115,69	3388,05	3674,88	3983,43
% Revenue Growth		*9,99%*	*-1,20%*	*-0,46%*	*-3,20%*	*-10,98%*	*13,81%*	*9,87%*	*6,31%*	*8,74%*	*8,47%*	*8,40%*
Costs of Goods Sold	752	832,9	835,4	859,4	859,3	703,70	830,01	932,47	1013,09	1125,39	1246,41	1378,96
% Revenue	*29,90%*	*30,11%*	*30,57%*	*31,59%*	*32,63%*	*30,02%*	*31,11%*	*31,82%*	*32,52%*	*33,22%*	*33,92%*	*34,62%*
Gross Profit	1762,7	1933,1	1897,4	1860,8	1773,8	1640,20	1837,56	1998,42	2102,60	2262,66	2428,47	2604,47
Gross Profit Margin	*70,10%*	*69,89%*	*69,43%*	*68,41%*	*67,37%*	*69,98%*	*68,89%*	*68,18%*	*67,48%*	*66,78%*	*66,08%*	*65,38%*
Selling, General and Admin	1214,1	1332	1307,6	1308	1011,5	985,70	1266,48	1391,50	1479,24	1608,55	1744,72	1891,21
% Revenue	*48,28%*	*48,16%*	*47,85%*	*48,08%*	*38,41%*	*42,05%*	*47,48%*	*47,48%*	*47,48%*	*47,48%*	*47,48%*	*47,48%*
EBITDA	548,6	601,1	589,8	552,8	762,3	654,50	571,08	606,92	623,36	654,12	683,75	713,26
EBITDA Margin	*21,82%*	*21,73%*	*21,58%*	*20,32%*	*28,95%*	*27,92%*	*21,41%*	*20,71%*	*20,01%*	*19,31%*	*18,61%*	*17,91%*
Other Expenses	24	60,4	-8,3	-15,2	65,6	-112,10	24,84	27,29	29,02	31,55	34,22	37,10
% Revenue	*0,95%*	*2,18%*	*-0,30%*	*-0,56%*	*2,49%*	*-4,78%*	*0,93%*	*0,93%*	*0,93%*	*0,93%*	*0,93%*	*0,93%*
Depreciation and Amortization	130,8	142,4	123,2	114,7	329,2	274,20	243,76	267,82	284,71	309,60	335,80	364,00
% Revenue	*5,20%*	*5,15%*	*4,51%*	*4,22%*	*12,50%*	*11,70%*	*9,14%*	*9,21%*	*9,25%*	*9,28%*	*9,28%*	*9,28%*
EBIT	402,90	394,30	410,30	437,20	188,70	521,10	302,48	311,80	309,64	312,97	313,72	312,16
% EBIT Growth		*-2,13%*	*4,06%*	*6,56%*	*-56,84%*	*176,15%*	*-41,95%*	*3,08%*	*-0,69%*	*1,08%*	*0,24%*	*-0,50%*
EBIT Margin	*16,02%*	*14,26%*	*15,01%*	*16,07%*	*7,17%*	*22,23%*	*11,34%*	*10,64%*	*9,94%*	*9,24%*	*8,54%*	*7,84%*
Interest Expense	-1,50	-1,00	-1,30	-0,60	-25,50	-29,80	-33,92	-37,26	-39,61	-43,08	-46,72	-50,64
% Revenue	*-0,06%*	*-0,04%*	*-0,05%*	*-0,02%*	*-0,97%*	*-1,27%*	*-1,27%*	*-1,27%*	*-1,27%*	*-1,27%*	*-1,27%*	*-1,27%*
Other Net Interest/Investment Inc.	5,10	5,50	7,20	7,90	7,00	2,60	6,13	6,73	7,16	7,78	8,44	0,00
% Revenue	*0,20%*	*0,20%*	*0,26%*	*0,29%*	*0,27%*	*0,11%*	*0,23%*	*0,23%*	*0,23%*	*0,23%*	*0,23%*	*0,00%*
Tax Expenses	101,00	107,10	131,20	101,50	46,90	114,30	57,47	59,24	58,83	59,46	59,61	59,31
% Taxable Income	*24,85%*	*26,86%*	*31,52%*	*22,83%*	*27,56%*	*23,14%*	*19,00%*	*19,00%*	*19,00%*	*19,00%*	*19,00%*	*19,00%*
Net Income before Minority Interest	305,50	291,70	285,00	343,00	123,30	379,60	217,22	222,03	218,35	218,22	215,84	202,20
% Net Income before Minority Interest Growth		*-4,52%*	*-2,30%*	*20,35%*	*-64,05%*	*207,87%*	*-42,78%*	*2,21%*	*-1,66%*	*-0,06%*	*-1,09%*	*-6,32%*
Minority Interest	-5,10	-0,90	-0,10	0,20	0,10	-0,20	-0,23	-0,25	-0,27	-0,29	-0,31	-0,34
% Revenue	*-0,20%*	*-0,03%*	*0,00%*	*0,01%*	*0,00%*	*-0,01%*	*-0,01%*	*-0,01%*	*-0,01%*	*-0,01%*	*-0,01%*	*-0,01%*
Net Income	309,50	286,80	293,50	339,30	121,70	375,70	216,99	221,78	218,09	217,93	215,52	201,86
% Net Income Growth		*-7,33%*	*2,34%*	*15,60%*	*-64,13%*	*208,71%*	*-42,24%*	*2,21%*	*-1,67%*	*-0,07%*	*-1,10%*	*-6,34%*

Cost of Goods Sold Impact

Table 10 - Cost of Goods Sold Forecast

Cost of Goods Sold Impact

	2016	2017	2018	2019	2020	2021
Costs of Goods Sold	752	832,9	835,4	859,4	859,3	703,7
% Revenue	29,90%	30,11%	30,57%	31,59%	32,63%	30,02%

Average Historical % Revenue	30,81%

		Forecasted Years					
	2021	2022	2023	2024	2025	2026	2027
Leather Goods (Revenue of Luxury Goods)	50	52,33	54,67	57,00	59,33	61,67	64,00
% Change		4,67%	4,46%	4,27%	4,09%	3,93%	3,78%

Impact on COGS (% of Revenues)

	Forecasted Years					
	2022	2023	2024	2025	2026	2027
Costs of Goods Sold (% Revenue)	31,11%	31,82%	32,52%	33,22%	33,92%	34,62%

Assumption:

Leather goods constitute one of the main raw materials used in product manufacturing in the Luxury & Fashion Retail Industry.

According to Statista, in 2020 the value of revenues of leather goods are estimated to be over US $50 Bn, representing 16% of total revenues of luxury goods. The material is expected to reach approximately US $64 Bn in 2027, which is equivalent to an increase of 28% along the time frame considered.

Therefore, it is assumed that this growth is spread uniformly along the forecasted period until reaching its expected value.

Alongside that, it was considered the historical average weight of COGS in revenues between 2016 and 2021.

The final projection for the COGS growth rate was equal weighted between the impact of the leather goods' value and the historical average % of GOGS in revenues.

SG&A and Other Expenses Forecast

Table 11 - SG&A Forecast[2]

SG&A Forecast

							Forecasted Years					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Selling, General and Admin	1214,1	1332	1307,6	1308	1011,5	985,7	1266,48	1391,50	1479,24	1608,55	1744,72	1891,21
% Revenue	48,28%	48,16%	47,85%	48,08%	38,41%	42,05%	47,48%	47,48%	47,48%	47,48%	47,48%	47,48%

Auxiliary						
15	5	4	3	2	1	0
7,121545711	2,414	1,926247	1,435451	0,961694	0,384148	0

Expected Weight (% of Revenues)
47,48%

Assumption:

SG&A is assumed to be constant for the forecasted years, standing as its expected weight as a percentage of Revenues according to historical data.

[2] The table "Auxiliary" shows the method used to compute the expected weight of the SG&A in Revenues for the forecasted years through the historical data available. The purpose of the first row is to indicate the sum of the differences in number of years between 2021 and the previous years while the second row's purpose is to indicate the sum of the products between the number of years from each interval considered and the weight of the indicator in Revenues in the first year of the respective interval. The product between both sums resulted in the forecasted expected weight.

Table 12 - Other Expenses Forecast[3]

Other Expenses Forecast

							Forecasted Years					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Other Expenses	24	60,4	-8,3	-15,2	65,6	-112,1	24,84	27,29	29,02	31,55	34,22	37,10
% Revenue	0,95%	2,18%	-0,30%	-0,56%	2,49%	-4,78%	0,93%	0,93%	0,93%	0,93%	0,93%	0,93%

Auxiliary						
15	5	4	3	2	1	0
0,139692176	0,0477	0,087346	-0,00911	-0,01118	0,024914	0

Expected Weight (% of Revenues)
0,93%

Assumption:

Other Expenses are assumed to be constant for the forecasted years, standing as its expected weight as a percentage of Revenues according to historical data.

[3] The method used in the table "Auxiliary" to compute the expected weight of the respective variable in Revenues was previously explained in the footnote of the page 50.

Interest & Tax Expenses Forecast

Interest Expenses Forecast

Assumption:

As there were no expected changes in term of debt policy, the last of the historical values is assumed to be the same along the forecasted period.

Tax Expenses Forecast

Assumption:

It is assumed the Statutory Corporate Tax Rate of the United Kingdom (19%), derived from Damodaran ("Regional Weighted Averages") for the forecasted period.

D&A Expenses Forecast

Table 13 - D&A Expenses Forecast[4]

D&A Expenses Forecast

							Forecasted Years					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Depreciation and Amortization	130,8	142,4	123,2	114,7	329,2	274,2	243,76	267,82	284,71	309,60	335,80	364,00
% Revenue	5,20%	5,15%	4,51%	4,22%	12,50%	11,70%	9,14%	9,21%	9,25%	9,28%	9,28%	9,28%

Histroical Average % of D&A in PP&E	13,35%

Auxiliary						
15	5	4	3	2	1	0
0,810601596	0,260070784	0,20592914	0,135245902	0,084332034	0,125023736	0

Expected Weight (% of Revenues)
5,40%

	CAGR (%) 22	CAGR (%) 23	CAGR (%) 24	CAGR (%) 25-27
Asia	-8,85%	-1,02%	-1,02%	-1,02%
EMEIA	-8,85%	-8,85%	-8,85%	-5,71%
Americas	-8,85%	-8,85%	-4,10%	-4,10%
Total	-8,85%	-6,24%	-4,66%	-3,61%

[4] The method used in the table “Auxiliary” to compute the expected weight of the respective variable in Revenues was previously explained in the footnote of the page 50.

Assumption:

Depreciations & Amortizations are expected to reduce in the first projected year in terms of percentage of Revenues adjusted for the forecasted decreasing number of stores and the historical average weight of D&A in PP&E.

Although, it is more usual to analyse the evolution of Depreciations & Amortizations based only on the PP&E (Property, Plant & Equipment), since the other indicators were evaluated based on the revenues and the D&A expenses have had a steady weight relative to the revenues, except for the years of 2020 and 2021 due to the Covid-19 pandemic impact, it was assumed that the expected weight for the forecasted period would be computed considering both Revenues and PP&E, allowing for a more uniform analysis.

Other Net Interest/Investment Income & Minority Interest Forecast

Table 14 - Other Net Interest/Investment Inc. Forecast[5]

Other Net Interest/Investment Inc. Forecast

							Forecasted Years					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Other Net Interest/Investment Inc.	5,1	5,5	7,2	7,9	7	2,6	6,13	6,73	7,16	7,78	8,44	9,15
% Revenue	0,20%	0,20%	0,26%	0,29%	0,27%	0,11%	0,23%	0,23%	0,23%	0,23%	0,23%	0,23%

Auxiliary						
15	5	4	3	2	1	0
0,03446494	0,01014	0,007954	0,007904	0,005808	0,002658	0

Expected Weight (% of Revenues)
0,23%

Assumption:

Other Net Interest/Investment are assumed to be constant for the forecasted years, standing as its expected weight as a percentage of Revenues.

Minority Interest Forecast

Assumption:

With no disclosures regarding future divestments or non-controlling investments, the last historical value for Minority Interest as a percentage of Revenues was assumed throughout the entire forecasted period.

[5] The method used in the table "Auxiliary" to compute the expected weight of the respective variable in Revenues was previously explained in the footnote of the page 50.

Special Assets Forecast

Table 15 – Special Assets Forecast

Special Assets

Marketable Securities	
	2021
Cash & Equivalents	1071,50

Equity Holdings	
	2021
Minority Interest	-0,2
Industry Price-Book Ratio	3,37
Minority Interest (Adjusted to Market)	-0,67

Goodwill	
	2021
Goodwill	105,20

Assumption:

Cash should not be a part of the valuation due to its effect on interest income and contamination of the discount rate. Therefore, it should be added back as soon as the operating assets are valued.

Minority Interest are adjusted to Market settings through the Industry Price to Book Ratio. After all operating assets are valued, the value should be subtracted from the estimated value of the consolidated firm.

Goodwill is not a tangible/physical asset but rather the portion of the purchase price paid by one company to acquire another company's assets and to support the liabilities included in that process, that exceeds the total fair value of both assets and liabilities. Since the DCF valuation model will already include the fair value of assets and their growth potential, the goodwill should not be added back to the operating assets because it would incur in a double counting error that could produce an overestimation of the assets' value.

Free Cash Flow to the Firm Forecast

The third and final part of the forecasting process with regards to the DCF Valuation Method, consisted in projecting the Free Cash Flow to the Firm for the next 5 years.

For the marginal tax rate, it was considered the corporate tax rate of the United Kingdom (Damodaran, 2017). Moreover, the Capital Expenditures (Net) were projected as an equal weighted average between its historical weight as a % of Revenues between FY2016 – FY2021 and its forecasted weight as a % of Revenues assuming that the CAPEX increases at the revenues growth rate for the forecasted period. The Net Working Capital was assumed to increase at the revenues growth rate. Besides that, the Depreciation followed the assumption that was previously stated in the page 54.

All in all, it was achieved a CAGR of 1.88% for the projected period (FY2022-FY2027).

Free Cash Flow to the Firm Forecast

Table 16 - Free Cash Flow to the Firm Forecast

		Forecasted Years					
	2021	2022	2023	2024	2025	2026	2027
EBIT	521,10	302,48	311,80	309,64	312,97	313,72	312,16
Tax rate	23%	19%	19%	19%	19%	19%	19%
NOPAT	399,60	245,01	252,56	250,81	253,51	254,12	252,85
CAPEX (Net)	-114,80	-127,00	-139,54	-148,34	-161,30	-174,96	-189,65
NWC	53,12	60,46	66,43	70,62	76,79	83,29	90,28
Depreciation	274,20	243,76	267,82	284,71	309,60	335,80	364,00
FCFF	505,87	301,30	314,41	316,56	325,01	331,67	336,91

Weighted Average Cost of Capital (WACC)

To compute the WACC, two different approaches were used: Conventional Approach and Debt Adjusted Approach.

Conventional Approach

This approach assumes a non-market risk bearing Debt, whose beta is null. Therefore, the beta of equity is written as a function of the unlevered beta and D/E ratio.

The initial part of the Conventional Approach aims to compute the firm's cost of equity by applying the CAPM model formula that combines the firm's beta with the excess returns of the market, to which is summed the risk-free rate.

- Beta: The Levered Beta of Burberry Plc, resulting from the regression of its stock excess returns with the excess returns of Stoxx Europe 600 (Market).

Burberry and almost all its peers are headquartered and hold most of its operations in Europe making it logical to choose a European market index as the benchmark. Although the Eurostoxx 50 is a representation of the European market, its limited number of members and large market cap would not be an appropriate measure for the valuation. Thus, Stoxx Europe 600 was the considered index as it also represents medium and small market cap firms and yields a wider number of firms (600).

- Risk Free: The Yield of United Kingdom’s 10-Year Gilts (As of 1:11 AM ET 04/14/2022)

- Implied Market Risk Premium: The weighted average Country Risk Premium for the Western Europe region, utilizing World Bank GDP estimates for the most recent year by Aswath Damodaran (Sheet "Regional Weighted Averages"). The market is assumed to be correct in the aggregate, justifying the choice of current implied risk premium.

Table 17 - Cost of Equity

Beta	1,02752966
Risk Free	1,89%
MRP	5,07%

With all necessary variables extracted, applying the CAPM formula it was possible to obtain the value of Cost of Equity.

Table 18 - Cost of Equity

Cost of Equity	**7,10%**

Although Burberry Group Plc is a bond issuer since 2020, the fact that it has issued only one bond to this day wouldn't contribute to a well justified and reasoned cost of debt. Therefore, a synthetic rating based on the interest coverage ratio was created in order to attribute the corresponding spread to the firm, by recurring to the Table 39 "Synthetic Rating" (Appendix). However, the spread associated lead to an unrealistic rating and, an almost null Cost of Debt. Therefore, the credit rating provided by Moody's was used as reference to build the synthetic rating.

Table 19 – Interest Coverage Ratio & Credit Rating

	2021
EBIT	521,10
Interest Expense	-29,8
Interest Coverage Ratio	17,48657718

Credit Rating	Baa2
Deafult Spread	2,00%
Risk Free	1,89%

With all necessary variables extracted, the sum of the default spread with the risk-free rate yields the Cost of Debt.

Table 20 - Cost of Debt

Cost of Debt	3,89%

Finally, the WACC was computed considering interest tax shields and, by utilizing the market values of both Debt and Equity.

Table 21 – WACC

Marginal tax rate	19,00%
Cost of Equity	7,10%
Debt	1284,52
Equity	6404,71
Cost of Debt	3,89%

WACC	6,44%

Debt Adjusted Approach

Utilizing data from Damodaran (Sheet "Regional Weighted Averages"), it was possible to assign a specific marginal tax rate to each company, taking into consideration the respective country where they report.

Table 22 - Marginal Tax Rate & Implied MRP

	Germany	UK	United States
Marginal tax rate	30,00%	19,0%	27,0%
Implied MRP	5,07%	5,07%	5,07%

In order to attribute a rating and a spread to each company to compute the Cost of Debt, it was computed the Interest Coverage Ratio, which grants the access to the corresponding values for rating and spread that are present on the Table 39 “Synthetic Rating” (Appendix).

Table 23 – Interest Coverage Ratio, Credit Rating & Cost of Debt

	PVH	Hugo Boss	Tapestry	Capri	Ralph Lauren
EBIT	-1076,6	228	968	19	-43,6
Inerest Expense	120,6	-22,6	74,1	43	48,5
Interest Coverage Ratio	-8,93	-10,09	13,06	0,44	-0,90

	PVH	Hugo Boss	Tapestry	Capri	Ralph Lauren
Rating	BBB-	A1	BBB-	BBB-	A-
Spread	2,00%	1,25%	2,00%	2,00%	1,56%
Risk free	0,680%	0,680%	0,680%	0,680%	0,680%
Cost of Debt	2,68%	1,93%	2,68%	2,68%	2,24%

Furthermore, it was retrieved each of the Industry Peers' Levered Beta by performing regressions based on the excess returns of each peer and, alongside that, the values for Equity and Debt provided by Thomson Reuters Eikon were used to compute the Debt-to-Equity Ratio. After computing the value for the Cost of Debt of each company, it was possible to achieve the Beta of Debt.

Table 24 - Levered Beta & Beta of Debt

	PVH	Hugo Boss	Tapestry	Capri	Ralph Lauren	Average
Levered Beta	1,2509	1,1111	1,1678	1,3791	1,0725	1,1963
Beta of Debt	0,3943	0,2464	0,3943	0,3943	0,3076	0,3474
D/E	0,7543	1,4984	0,4894	0,6219	0,7768	0,8282
Total Equity	4730	753,8	3259,3	2158	2604,4	2701,1
Total Debt	3568	1129,5	1595,1	1342	2023,1	1931,54
Marginal tax rate	27,0%	30,0%	27,0%	19,0%	27,0%	26,0%

Afterwards, the Unlevered Beta was retrieved under the assumption that the required variables are the arithmetic average of the Industry Peers' metrics:

Table 25 - Unlevered Beta

	Burberry Group PLC
Levered Beta	1,1963
Beta of Debt	0,3474
D/E	0,8282
Marginal tax rate	26,0%
Unlevered Beta	0,8737

With all the necessary variables extracted, the Levered Beta is computed in order to be used for further calculations.

Table 26 - Bottom - Up Levered Beta

	Burberry Group PLC
Unlevered Beta	0,8737
Marginal tax rate	19,0%
Total Equity	6404,71
Total Debt	1284,52
Bottom-up Levered Beta	1,0157

The following calculations just represent the process that was already adopted in the first approach (Conventional Approach). It was computed the cost of equity using the Levered Beta previously calculated and then, the Interest Coverage Ratio was retrieved in order to achieve

the cost of debt. Finally, utilizing both values and the respective market values for Equity and Debt, it was possible to reach the company's WACC.

Table 27 - Cost of Equity

Beta	1,0157
Risk Free	1,890%
MRP	5,07%
Cost of Equity	7,04%

As it was previously stated, although Burberry Group Plc is a bond issuer since 2020, its yield to maturity was not used as cost of debt. Instead, a synthetic rating based on the interest coverage ratio was created in order to attribute the corresponding spread to the firm, by recurring to the Table 39 “Synthetic Rating” (Appendix). However, as it was previously experienced in the Conventional Approach, the spread associated lead to an unrealistic rating and, an almost null Cost of Debt. Therefore, the credit rating provided by Moody's was used as reference to build the synthetic rating.

Table 28 - Interest Coverage Ratio & Credit Rating

	2021
EBIT	521,10
Interest Expense	-29,80
Interest Coverage Ratio	17,48657718
Credit Rating	Baa2
Deafult Spread	2,00%
Risk Free	1,890%

With all necessary variables extracted, the sum of the default spread with the risk-free rate yields the Cost of Debt and consequently, allowed for the calculation of the WACC.

Table 29 - Cost of Debt

Cost of Debt	3,89%

Table 30 - WACC

Marginal tax rate	19,00%
Cost of Equity	7,04%
Debt	1284,52
Equity	6404,71
Cost of Debt	3,89%

WACC	6,392%

DCF Valuation Model – Target Price

The assumed Inflation Rate and Real GDP Growth for 2027 equal the values forecasted for 2025, according to Statista. It is important to emphasize that only post-Covid forecasts were used. Regarding the WACC, it was computed an average of the conventional approach and the debt-adjusted approach.

Table 31 - Nominal GDP Growth & WACC

	2027
Forecasted Inflation Rate of United Kingdom	2,00%
Forecasted Real GDP Growth of United Kingdom	1,80%
Nominal GDP Growth of United Kingdom	3,84%
WACC	6,42%

As it was previously stated, Capital Expenditures (Net) resulted from an equal weighted average between its historical weight as a % of Revenues and its forecasted weight as a % of Revenues, considering an increase at the growth rate of revenues.

Following that, the Net Working Capital was assumed to increase at the growth rate of revenues. It is relevant to state that the change in NWC in 2021 (basis value for the projection) was achieved by performing an equal weighted average between the average change in NWC as a % of revenues of Burberry's peer group for the last 10 years (FY2012-FY2021), as it is demonstrated below in the Table 32.

Lastly, the Depreciation followed the assumption that was previously taken in the page 54.

Table 32 - Change in NWC as a % of Revenues

	ΔWC as % of Revenue										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Average
Ralph Laren Corp.	0,85%	0,82%	2,51%	2,35%	1,65%	3,51%	4,67%	1,22%	1,20%	1,72%	1,76%
Capri Holdings	4,88%	1,18%	2,01%	4,21%	3,86%	1,80%	3,33%	3,15%	2,38%	6,85%	2,99%
Hugo Boss AG	5,78%	6,48%	7,05%	4,69%	3,68%	1,85%	4,81%	0,94%	0,84%	3,84%	3,23%
Tapestry, Inc.	0,38%	2,03%	3,38%	4,03%	0,83%	2,15%	2,88%	4,53%	1,62%	4,01%	2,09%
PVH Corp.	1,57%	1,96%	0,26%	1,89%	0,84%	0,94%	0,79%	1,88%	0,67%	9,04%	1,27%
										Total	2,27%

After projecting the Free Cash Flow to the Firm for FY2022 – FY2027 by subtracting both CAPEX and NWC to the NOPAT and adding the Depreciation, as it is possible to see in the table 33, the FCFF values were discounted at the weighted average cost of capital (table 34). Moreover, the Terminal Value was computed through the Perpetuity Growth Method by considering the last FCFF value that was forecasted (2027) and multiplying it by the Nominal GDP growth rate for UK while dividing it by the difference between the WACC and the Nominal GDP growth rate for UK (table 34).

Furthermore, the Terminal Value was also discounted by seven years at the WACC to complete this projection (table 34).

Table 33 – FCFF Forecast

		Forecasted Years					
	2021	2022	2023	2024	2025	2026	2027
EBIT	521,10	302,48	311,80	309,64	312,97	313,72	312,16
Tax rate	23%	19%	19%	19%	19%	19%	19%
NOPAT	399,60	245,01	252,56	250,81	253,51	254,12	252,85
CAPEX (Net)	-114,80	-127,00	-139,54	-148,34	-161,30	-174,96	-189,65
NWC	53,12	60,46	66,43	70,62	76,79	83,29	90,28
Depreciation	274,20	243,76	267,82	284,71	309,60	335,80	364,00
FCFF	505,87	301,30	314,41	316,56	325,01	331,67	336,91

Table 34 – PV of FCFF and Terminal Value

	-	Forecasted Years						TV	PV (TV)
		2022	2023	2024	2025	2026	2027	2028	2028
PV (FCFF)		283,13	277,64	262,68	253,43	243,03	231,99	13555,95	8771,25

The final step in this process consisted in computing the Current Share Price. To do so, firstly, the Enterprise Value was achieved by adding all the discounted FCFF (FY2022-FY2027) and the discounted Terminal Value.

Secondly, the Equity Value was computed by adding the Cash & Cash Equivalents while subtracting the Market Value of Debt and the Minority Interest to the Enterprise Value.

Finally, after retrieving the number of shares outstanding it was possible to achieve the final target price for Burberry.

Table 35 – Current Share Price

Enterprise Value	10323,14
Cash & Equivalents	1071,50
Minority	-0,67
Debt	1284,52
Equity	10109,45
N° of shares	404,90
Current Share Price	£24,97

Relative Valuation Model – Target Price

For the Relative Valuation, as it was previously described in the Literature Review, three different multiples were chosen in order to compare Burberry's value to its peers' values, that were also already presented in the Industry Analysis. Being that said, all the data related to the peer's group that was used to compute their P/E ratio, EV/EBITDA ratio and P/BV ratio were extracted from Thomson Refinitiv Datastream.

Using the peer's group median value to compute all Burberry's multiple ratios, allow to control for any possible differences that can exist between companies that might distort the multiples values (Damodaran, 2002).

Through the P/E ratio, Burberry had a current share price of £16.61. Furthermore, using the EV/EBITDA ratio, it was possible to reach a current share price of £34.24. Finally, under the P/BV ratio, a current share price of £12.96 was attained.

To reach a single current share price for the Relative Valuation Model, it was considered an equal weighted average between the three multiples which resulted in a current share price of £21.27.

Table 36 - Relative Valuation Model - Multiples

Relative Valuation Model - Multiples

Company	PVH	Hugo Boss	Tapestry	Capri	Ralph Lauren	Average	Median
P/E	13,84	84,16	13,31	17,94	17,90	29,43	17,90
EV/EBITDA	24,17	24,17	7,68	18,29	17,31	16,86	17,80
Price To Book	1,31	4,61	3,37	3,44	3,12	3,17	3,37

Burberry Group PLC P/E	Net Income	Median	Implied Equity Value	Shares Outstanding	Price/Share
	375,70	17,90	6725,03	404,90	16,61

EV/EBITDA	EBITDA	Median	Implied Equity Value	Implied Enterprise Value	Net Debt	Shares Outstanding	Price/Share
	795,30	17,80	13865,74	14156,34	290,60	404,90	34,24

Price To Book	Equity (Book)	Median	Implied Equity Value	Shares Outstanding	Price/Share
	1556,60	3,37	5245,74	404,90	12,96

Sensitivity Analysis

Table 37 - Sensitivity Analysis based on EV & Current Share Price

Based on the Enterprise value:

		WACC				
	£10 323,14	6,39%	6,41%	6,42%	6,43%	6,44%
Nominal GDP Growth	3,64%	£9 783,37	£9 712,22	£9 677,03	£9 642,09	£9 607,40
	3,74%	£10 102,19	£10 026,01	£9 988,34	£9 950,96	£9 913,86
	3,84%	£10 102,19	£10 026,01	**£9 988,34**	£9 950,96	£9 913,86
	3,94%	£10 817,89	£10 729,80	£10 686,29	£10 643,13	£10 600,32
	4,04%	£11 221,42	£11 126,24	£11 079,25	£11 032,66	£10 986,45

Based on the Current Share Price:

		WACC				
	£24,97	6,39%	6,41%	6,42%	6,43%	6,44%
Nominal GDP Growth	3,64%	£23,63	£23,46	£23,37	£23,29	£23,20
	3,74%	£24,42	£24,23	£24,14	£24,05	£23,96
	3,84%	£24,42	£24,23	**£24,14**	£24,05	£23,96
	3,94%	£26,19	£25,97	£25,86	£25,76	£25,65
	4,04%	£27,19	£26,95	£26,84	£26,72	£26,61

A Sensitivity Analysis was conducted to quantify the current uncertainty that has been affecting both global economy and society mainly caused by the Covid-19 pandemic, through stress testing both Enterprise Value and Current Share Price and, consequently, creating a well-reasoned valuation range for Burberry.

For both analyses, the impact on the company´s valuation was measured through the combined change of the WACC and the Nominal GDP Growth. For the WACC, the values computed from the Conventional approach and Debt Adjusted approach were used as the extreme values of both analyses while the intermediate values were computed by making averages of the basis value (6.42 %) and the extreme values. The Nominal GDP Growth registered a change of ± 0.1% from 3.84 % as the basis value.

Taking these into account, the Enterprise Value range is between £9.607,40 and £11.221,42 and the Current Share Price range is between £23.20 and £27.19.

Scenario Analysis

One thing that the Covid-19 pandemic has brought is the fact that the well-being of companies and economies all around the world is heavily dependent on a stable environment. The slight deviation from this scenario can create uncertainty towards the functioning of economies and, consequently, of their constituting companies. This can imply a significant fluctuation of the actual value of companies. To try to predict this fluctuation, a scenario analysis was conducted by creating two possible scenarios, a Pessimistic Scenario and an Optimistic Scenario, to integrate the possible effects, both positive and negative, that the current health pandemic and the most recent conflict between Russia and Ukraine could have on the luxury goods industry and, consequently, on Burberry´s valuation.

For the Pessimistic scenario it is considered that the current health pandemic would still continue to have a significant impact on the normal functioning of society for a considerable amount of time, at least one year, and the recent conflict that erupted in the Eastern Europe would also have a strong impact on the world economy, mostly on Ukraine and Russia economies. To demonstrate that, assumptions were made towards the development per region of all the indicators that have influence in the revenues of the company. Being that said, it was assumed that in Asia, the store closure projection would increase 5% per year relatively to the Baseline Model while the recovery in sales due to the Covid-19, the increase of digital sales and the growing impact of the Millennials and Gen Z would represent only 80% of the yearly projections made in the Baseline Model.

The same logic was applied to EMEIA and Americas although with worst projections than Asia since it represents the most important and most solid market for Burberry. Firstly, it is expected a 10% increase of store closure in EMEIA per year comparing with the basic projections while the other value drivers would only produce 70% of the projected values in the Baseline Model, per year. Finally, in Americas, since it is the smallest regional market for Burberry in terms of revenues, it is expected a yearly increase of store closure of 15% in comparison with the Baseline Model and the other indicators would produce only 60% of the initially projected values for each forecasted year.

To account for the effect of the current conflict between Russia and Ukraine, it was decided to firstly, determine the market share of both countries in terms of total revenues of Burberry and

then, based on that, forecast the possible impact that a disruption of the Ukrainian and Russian markets can have in the total sales of the company and, consequently, in its valuation.

Being that said, it was determined that together both countries have an insignificant percentage of around 1% of the total revenues of the company. Therefore, it was assumed that it would have a 2% impact in total revenues in 2022.

Assuming that both Capital Expenditures, Net Working Capital would increase at the growth rate of revenues and the D&A would follow the previously taken assumption in the Baseline Model, a current share price of £20.25 was reached through a DCF Valuation Model in comparison with the current share price of £24.97 obtained in the Baseline Model, which represents a downside of 12.87%. This forecasting process can be seen in detail in the Appendix 5. Alongside that, the Appendix 6 shows the valuation range created for this particular scenario, accounting for both EV and Current Share Price.

Contrarily, for the Optimistic scenario it is considered that the Covid-19 impact on society and economy would progressively reduce to insignificant levels and the current war conflict would be solved in a short period of time, from two to three months, not having additional significant consequences to the functioning of the economies of the intervenient countries in the long-run.

It was assumed that in all regions, the store closure impact would be lower than the impact that was projected in the Baseline Model. Being that said, in Asia, the impact would only reflect 60% of the yearly basic projection while in EMEIA would reflect 70% and, finally, in Americas, the store closure impact would represent 80% of the projections made in the Baseline Model, per forecasted year.

For the remaining value drivers (recovery in sales, increase in digital sales, growing relevance of HENRY's) it was assumed an additional positive impact of 20% per year in Asia while in EMEIA and in Americas, the additional impact would be 15% and 10%, respectively.

Regarding the current conflict in Eastern Europe, in order to account for the negative effects arising from this, it was assumed a 1% impact in total revenues in 2022.

Taking the same assumptions that were previously stated in the Pessimistic scenario, a current share price of £29.67 was achieved (£24.97 in the Baseline Model), representing an upside of 27.67%. By recurring to the Appendix 7, it is possible to see this projection in more detail while the Appendix 8 shows the valuation range created for Burberry in this scenario, accounting for both EV and Current Share Price.

Target Price

After proceeding with the DCF Valuation method and the Relative Valuation method, it was possible to compute a final target price for Burberry. The estimated target price for 2022 was computed based on a weighted average of the stock prices obtained from the Relative Valuation method through each multiple approach and the DCF Valuation method, as it is demonstrated below.

In this case, the DCF method's share price is given a higher weight since it is a more realistic and accurate outlook and because the Relative Valuation relies heavily on the peer' group chosen which means that this method can absorb the main differences in terms of financial metrics between peers and produce multiples that distort the actual valuation of a company. Nevertheless, the multiples valuation approach is not discarded since it represents a complementary analysis to the DCF method, indicating where the industry is headed by indicating the key factors that can create significant value, which can significantly impact Burberry's own individual analysis.

$$\text{Target Price} = \left(\frac{\left(\frac{P}{E}\ Multiple + \frac{EV}{EBITDA}\ Multiple + + \frac{P}{B}\ Multiple\right)}{3}\right) * 35\% \ + (\ DCF\ Price\ ) \ * 65\%$$

The Target Price is £23.67 which represents an upside of 1.85% comparing to the Current Share Price (as of 29th March 2022). Being that said, the recommendation is to HOLD Burberry´s stock.

Table 38 - Target Price

Target Price	
Current Share Price as of 29/03/2022	£23.24
DCF Valuation Model (65%)	£24.97
Relative Valuation Model (35%)	£21.27
Target Price (GBP)	£23.67
Target Price (GBX)	2,351.56

Comparison with Deutsche Bank

According to Burberry, there are 22 financial institutions around the world that have analysts covering its performance in order to produce equity valuation reports about the company that contain, among other information, a price target and a recommendation based on that.

In this case, it was decided to use equity research from Deutsche Bank that was produced by the analyst Adam Cochrane.

Table 39 – Target Price from Deutsche Bank

Equity Research from Deutsche Bank Analyst : Adam Cochrane	
Issue Date	25/01/2022
Price at 24 Jan 2022 (GBX)	1,886.00
Price Target (GBX)	2,280.00
52-week range (GBX)	1,687.00 - 2,264.00
Recommendation	HOLD

The valuation conducted was made through a Discounted Cash-Flow Valuation with a WACC of 8.5%, being 32.4% higher than the WACC used in this dissertation. There are certain upside risks that the analyst considers to be plausible to affect the company´s performance such as the increase of prices given the customers' acceptance, the progressive recovery of tourism mainly in Europe and also the increase of sales density in physical stores which resulted from the implementation of the company´s strategy.

However, there are also factors that can negatively influence the performance of the company such as the possible miscomprehension of customers towards the price of the products based on their perception of the brand, the expansion of the customer reach to a certain price point that ultimately increased the number of direct competitors of Burberry and also the Covid-19 pandemic related uncertainty that could eventually decrease the pace of recovery of the markets worldwide.

Regarding Burberry's Income Statement, the analyst proposes a growth for the Group sales during FY 2022-FY2025 of approximately 29%, which is very similar to the growth rate

achieved in this dissertation (27%). Furthermore, there is expectation that following the sales growth, there will be also a growth in total operating costs by approximately 31% which constitutes a similar value to the growth rate computed in the model that was developed in this dissertation (34%).

According to Deutsche Bank analysis, EBITDA should grow 28% during the forecasting period (FY 2022- FY 2025) which consists in a more optimistic projection in comparison with the forecast made in this dissertation (14.54%). The Depreciation variable is estimated to suffer a slight growth of 7% while, according to the model developed in this thesis, it should grow 11.53% across the projected period.

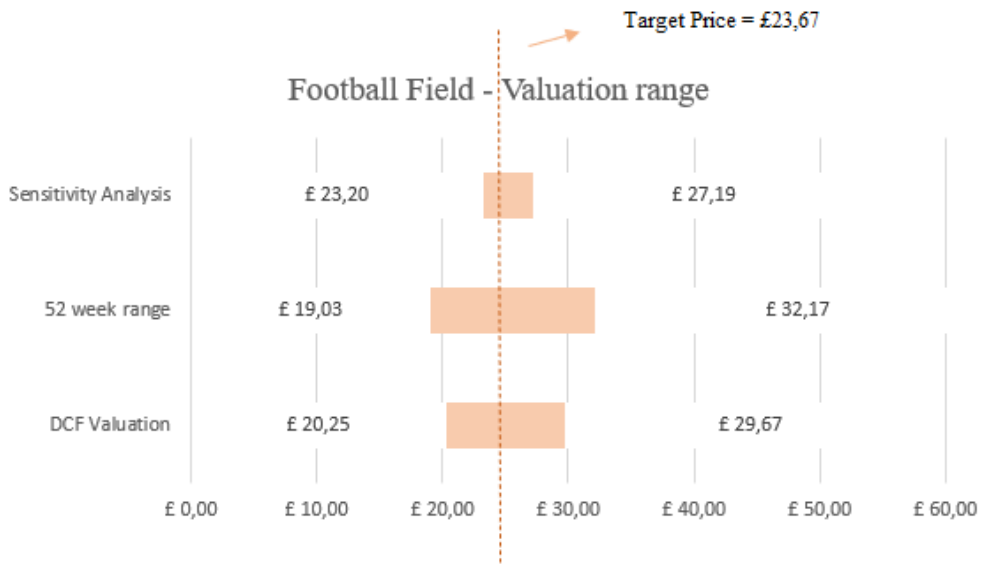
Other key company metric considered in the analyst's report was the EBIT margin that should increase 2% by the end of FY 2023 in comparison with the projected decrease of -6.18% in this dissertation.

For the Cash Flow, the analyst expects that by the end of FY 2023, the net cash flow should increase by 6% while since the approach used in this dissertation was more conservative, it resulted in an increase of 4.35%.

Regarding the Relative Valuation, there is an estimation of several valuation multiples considering the information reported until the end of FY 2021. The EV/EBITDA ratio should be 10.5x while, in this dissertation, it was computed a ratio of 34.24x. The P/E ratio should register 19.1x in comparison with 16.61x that resulted from the model created in this thesis and finally, the P/BV ratio should be 4.90x, which represents a projection lower than the forecast computed in this dissertation (12.96x). The differences between the ratios from the analyst's report and the ratios computed in this thesis mainly come from the different peer groups that were chosen in each report.

All in all, it is possible to state that this report provides an estimation for most of the key company metrics slightly more optimistic than the estimation conducted through the valuation model developed in this dissertation, although producing a slightly more conservative target price and the same final recommendation. The different ratios produced in the Relative Valuation and the method used to compute the final target price were the main reasons for the target price to be slightly more conservative.

Conclusion



To conclude it was conducted a valuation to Burberry that resulted in a share price of £23.67 on the 29th of March of 2022 which corresponds to a HOLD recommendation. There were two valuations models that were used, the Discounted Cash-Flow Valuation Model and the Relative Valuation Model.

The Relative Valuation Model resulted in a share price of £21.27 being significantly lower than the Target Price estimated, having a downside of approximately 8.48% which represents a SELL recommendation. The DCF Valuation Model had resulted in a share price of £24.97 which reflects a significant upside of 7.44 %, producing a BUY recommendation.

For the DCF Valuation Model, it was also conducted a sensitivity analysis and a scenario analysis to reflect different possible outcomes in the valuation which pretends to reflect the uncertainty that has been affecting the global market. The sensitivity analysis allowed to create a range of possible share prices based on different possible values that were considered for WACC and Nominal GDP Growth. It produced a range between £23.20 (downside of 0.17%) that would result in a HOLD recommendation and £27.19 (upside of 17.00%) that would result in a BUY recommendation. Following that, a scenario analysis was produced that resulted in a valuation range between £20.25 for the pessimistic scenario which would produce a HOLD recommendation having a downside of 12.87 % and £29.67 for optimistic scenario which would produce a BUY recommendation with a potential upside of 27.67%.

Finally, considering that Deutsche Bank produced a HOLD recommendation while having an approach slightly more conservative as the analysis conducted in this dissertation, it is worth state that the valuation model that was created in this dissertation and the originated target price and recommendation have limitations since the model incurs in a lot of risks being significantly dependent on assumptions made for almost all the growth projections of the variables used in the model.

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Appendix

Appendix 1 - SWOT Analysis

Strengths

- Iconic fashion brand and global presence in 59 different countries an in 214 stores.
- Distinctively checker pattern and other exclusive brand images, including the single denomination
- Focused branding that creates strong retention and brand recall
- Biggest fashion houses in the UK operating in different segments and with a worldwide penetration either as an independent retailer or within gross luxury retailers' outlets.
- Granted Royal Warrants by Queen Elizabeth II and the Prince of Wales
- Strong presence on digital and market media which allows the British company to complement the physical store business with the online channel and therefore, to expand their ability to reach to new customers.
- Burberry has been able to increase the assets of the company since 2019 while decreasing the liabilities at the same time, guaranteeing a current ratio of 2.82 in 2021 and an average current ratio of 2.67 in the last 5 years which is significantly superior to the industry median of 1.72.

Weaknesses

- Burberry has not diversified its portfolio into the youth fashion and only limitedly into fashion accessories as well as perfumes, cosmetics, and other related products which limits its ability to have consistent growth in the long term. On the other side, to explore other market segments to expand the limited product line and limited client spectrum, will increase the competition and the operating costs.

- Burberry's financials have been performing poorly comparing to previous years, mainly due to the Covid-19 pandemic. Revenues have been declining since 2017, suffering a 15% decrease during the last 5 years. The productivity of physical stores measured by sales growth has been also decreasing since 2017, registering in 2021 a reduction of 9% comparing to the previous year. Alongside that, the Adjusted Operating Profit registered a decrease of 14% since 2017.

Opportunities

- Investment in expanding the brand to developing emerging markets located in Asia Pacific region. The Chinese market is the biggest example of the potential of this region for the luxury industry, being expected to account for almost half of the total market in the near future.
- Expansion of the product lines to meet the needs of the Gen Z and Millennials and the increasing demand for more premium and exclusive products
- Investment in new information technologic systems especially e-commerce and social media in order to develop the digital sales channel and consequently, to decrease the dependence of the revenues from physical stores which would decrease the operating costs attached to it and increase the company's ability to increase the profit in the long term.
- Integrating digital and physical store innovation, using both sales channels to improve the customer's experience and to reinforce the popularity of the brand.
- Burberry already introduced its first NFTs collection in collaboration with Mythical Games' Blankos Block Party, being a market segment that can turn out to be very profitable for the company in the medium-long term. The fact that it collaborated with a well-established platform resulted in a substantial reduction of the risk of entering in a new and still uncertain market.

Threats

- Intense competition from domestic and international players like Hermes, Louis Vuitton, and Prada.
- Increase of the fake luxury market producing copies of the iconic pattern and products
- Protectionist tendencies in an inversion of the globalization process using higher tariffs and trade restrictions that would increase the costs of trading goods to certain markets. This can imply that Burberry would be obliged to lower the prices of their products resulting in a decrease of their profit ability.
- The significant impact that the development of technology in the form of social media can have in the brand's image and ultimately in the consumer's choice, both positively and negatively.
- The current impact that the Covid-19 pandemic continue to have on businesses all around the world and the continuous uncertainty that it brings to both suppliers and consumers.

Appendix 2 - Porter´s Five Forces Analysis

Bargaining Power of Buyers

Although most of frequent luxury brand customers are insensitive to the price of products, it is important that Burberry is able to meet the recent needs of young consumers related to social and environmental concerns since they represent the majority of the clients. Besides that, keeping an innovative line of products should contribute to maintain the current clients satisfied and to expand the customer's base which would, consequently, prevent an increase of the bargaining power of buyers.

Bargaining Power of Suppliers

There are several factors that contribute to a low bargaining power of suppliers such as the low cost of input materials and labour, the huge variety of suppliers in the luxury market that guarantee a high flexibility to switch suppliers due to the low switching costs involved. Besides that, Burberry already have a significant base of suppliers and own some suppliers and have its own factories in the UK.

Threat of Substitute Products

Burberry is a globally unique brand that have a wide range of products from trench coats to all types of accessories which means that the company incurs in the risk of being replaced for brands that could offer a more exclusive line of products to the costumers since that is one of the main reasons why there is such a large market for luxury clothing. However, the companies that can offer more exclusive products are also more expensive which means that customers should not switch brands easily.

Regarding the growing market of fake luxury apparel and accessories, Burberry should not be significantly affected due to its quality and status in the fashion business.

Competitive Rivalry

The luxury fashion retail industry is in an extremely intense and competitive industry that can drive prices to fall, when firms are committed to price war which would compromise both company's cost structure and long-term profitability. However, contrarily to the top companies in this industry that absorb the majority of the market share which make them suffer from intense competition between them, Burberry is a mid-high tier company in terms of market share, which contributes for the British company to be in a stable position where it only suffers a moderate competition from their peers.

Threat of New Entry

Burberry already has a well-established company with a global recognised brand and image. The high quality of the line of products, the high volume of sales all around the world and the numerous high-end retail stores are all factors that secure continuously a significant share of the luxury market to the British company. Besides that, to enter in the luxury industry and to perform international trades are considered to be extremely expensive processes.

Appendix 3 – Beta estimation for the WACC (Conventional Approach)

Table 40 - Beta estimation for the WACC (Conventional Approach)

Burberry Plc

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0,625196317
R Square	0,390870434
Adjusted R Square	0,385708319
Standard Error	0,076141877
Observations	120

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0,438987649	0,438987649	75,71904871	2,2986E-14
Residual	118	0,684115074	0,005797585		
Total	119	1,123102723			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95,0%*	*Upper 95,0%*
Intercept	0,000717018	0,008504542	0,084309992	0,932952839	-0,016124292	0,017558327	-0,016124292	0,017558327
Stoxx europe 600	1,02752966	0,1180842	8,701669306	2,2986E-14	0,793690795	1,261368525	0,793690795	1,261368525

Appendix 4 – Auxiliary Table for the Default Spread

Table 41 - Auxiliary Table for the Default Spread

For developed market firms with market cap > $5 billion			
If interest coverage ratio is			
>	*≤ to*	*Rating is*	Spread is
-100000	0.199999	D2/D	19.38%
0.2	0.649999	C2/C	14.54%
0.65	0.799999	Ca2/CC	11.08%
0.8	1.249999	Caa/CCC	9.00%
1.25	1.499999	B3/B-	6.60%
1.5	1.749999	B2/B	5.40%
1.75	1.999999	B1/B+	4.50%
2	2.2499999	Ba2/BB	3.60%
2.25	2.49999	Ba1/BB+	3.00%
2.5	2.999999	Baa2/BBB	2.00%
3	4.249999	A3/A-	1.56%
4.25	5.499999	A2/A	1.38%
5.5	6.499999	A1/A+	1.25%
6.5	8.499999	Aa2/AA	1.00%
8.50	100000	Aaa/AAA	0.75%

Source: Aswath Damodaran

Appendix 5 – FCFF Forecast (Pessimistic Scenario)

Table 42 - FCFF Forecast (Pessimistic Scenario)

		Forecasted Years					
	2021	2022	2023	2024	2025	2026	2027
EBIT	492,40	279,76	280,64	275,06	267,65	259,50	250,21
tc	0,23	0,19	0,19	0,19	0,19	0,19	0,19
NOPAT	399,60	226,61	227,32	222,80	216,79	210,19	202,67
CAPEX (Net)	-114,80	-120,84	-130,06	-137,12	-144,12	-151,39	-159,26
NWC (Net)	53,12	55,92	60,19	63,45	66,69	70,06	73,70
Depreciation	274,20	225,45	244,53	259,00	273,05	286,82	301,74
FCFF	505,87	275,30	281,60	281,22	279,03	275,57	271,45

		Forecasted Years						TV	PV (TV)
		2022	2023	2024	2025	2026	2027	2028	2028
PV (FCFF)	-	258,70	248,66	233,36	217,58	201,92	186,91	10921,90	7066,91

Enterprise Value	8414,04
Cash & Equivalents	1071,50
Minority	-0,67
Debt	1284,52
Equity	8200,35
N° of shares	404,90
Current Share Price	£20,25

Appendix 6 – Sensitivity Analysis for the Pessimistic Scenario

Table 43 - Sensitivity Analysis for the Pessimistic Scenario

Based on the Enterprise value:

		WACC				
	£8 414,04	6,39%	6,41%	6,42%	6,43%	6,44%
Nominal GDP Growth	3,64%	£7 979,21	£7 921,84	£7 893,47	£7 865,29	£7 837,32
	3,74%	£8 236,08	£8 174,66	£8 144,29	£8 114,15	£8 084,23
	3,84%	£8 236,08	£8 174,66	**£8 144,29**	£8 114,15	£8 084,23
	3,94%	£8 812,71	£8 741,70	£8 706,62	£8 671,82	£8 637,31
	4,04%	£9 137,84	£9 061,11	£9 023,23	£8 985,66	£8 948,41

Based on the Current Share Price:

		WACC				
	£20,25	6,39%	6,41%	6,42%	6,43%	6,44%
Nominal GDP Growth	3,64%	£19,18	£19,04	£18,97	£18,90	£18,83
	3,74%	£19,81	£19,66	£19,59	£19,51	£19,44
	3,84%	£19,81	£19,66	**£19,59**	£19,51	£19,44
	3,94%	£21,24	£21,06	£20,98	£20,89	£20,80
	4,04%	£22,04	£21,85	£21,76	£21,66	£21,57

Appendix 7 – FCFF Forecast (Optimistic Scenario)

Table 44 - FCFF Forecast (Optimistic Scenario)

		Forecasted Years					
	2021	2022	2023	2024	2025	2026	2027
EBIT	492,40	317,59	339,73	353,50	361,01	367,06	370,98
tc	0,23	0,19	0,19	0,19	0,19	0,19	0,19
NOPAT	399,60	257,25	275,18	286,34	292,42	297,32	300,49
CAPEX (Net)	-114,80	-137,18	-157,45	-176,23	-194,39	-214,14	-236,13
NWC (Net)	53,12	63,48	72,86	81,55	89,96	99,09	109,27
Depreciation	274,20	255,94	296,02	332,87	368,30	405,71	447,38
FCFF	505,87	312,52	340,89	361,43	376,37	389,80	402,47

		Forecasted Years						TV	PV (TV)
		2022	2023	2024	2025	2026	2027	2028	2028
PV (FCFF)	-	293,68	301,02	299,91	293,48	285,62	277,13	16193,72	10478,00

Enterprise Value	12228,83
Cash & Equivalents	1071,50
Minority	-0,67
Debt	1284,52
Equity	12015,14
N° of shares	404,90
Current Share Price	£29,67

Appendix 8 - Sensitivity Analysis for the Optimistic Scenario

Table 45 - Sensitivity Analysis for the Optimistic Scenario

Based on the Enterprise value:

		WACC				
	£12 228,83	6,39%	6,41%	6,42%	6,43%	6,44%
Nominal GDP Growth	3,64%	£11 583,98	£11 499,02	£11 457,00	£11 415,28	£11 373,86
	3,74%	£11 964,83	£11 873,86	£11 828,89	£11 784,25	£11 739,95
	3,84%	£11 964,83	£11 873,86	**£11 828,89**	£11 784,25	£11 739,95
	3,94%	£12 819,80	£12 714,61	£12 662,65	£12 611,11	£12 559,99
	4,04%	£13 301,85	£13 188,19	£13 132,08	£13 076,43	£13 021,26

Based on the Current Share Price:

		WACC				
	£29,67	6,39%	6,41%	6,42%	6,43%	6,44%
Nominal GDP Growth	3,64%	£28,08	£27,87	£27,77	£27,67	£27,56
	3,74%	£29,02	£28,80	£28,69	£28,58	£28,47
	3,84%	£29,02	£28,80	**£28,69**	£28,58	£28,47
	3,94%	£31,13	£30,87	£30,75	£30,62	£30,49
	4,04%	£32,32	£32,04	£31,91	£31,77	£31,63

Appendix 9 – Balance Sheet Forecast

Table 46 - Balance Sheet Forecast

Balance Sheet Forecast

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Weight on Total Assets/Liabilities and Equity
Assets (£ Millions)																	
Cash and Short Term Investments	546,9	426,4	545,5	617,4	711,8	843,5	915,3	874,5	928,9	1 261,3	1 393,6	1 539,8	1 701,3	1 879,7	2 076,8	2 294,7	
1Y Growth	*17,3%*	*-22,03%*	*27,93%*	*13,18%*	*15,29%*	*18,50%*	*8,51%*	*-4,46%*	*6,22%*	*35,78%*							36,01%
Accounts Receivable - Trade, Net	99,6	112,4	169,5	192,0	201,6	194,8	126,1	129,9	117,8	155,7	172,0	190,1	210,0	232,0	256,4	283,3	
1Y Growth	*12,4%*	*12,85%*	*50,80%*	*13,27%*	*5,00%*	*-3,37%*	*-35,27%*	*3,01%*	*-9,31%*	*32,17%*							4,45%
Total Receivables, Net	136,1	147,4	212,9	243,5	253,0	246,7	172,7	215,3	267,5	277,0	306,1	338,2	373,6	412,8	456,1	503,9	
1Y Growth	*14,2%*	*8,30%*	*44,44%*	*14,37%*	*3,90%*	*-2,49%*	*-30,00%*	*24,67%*	*24,25%*	*3,55%*							7,91%
Total Inventory	311,1	351,0	419,8	436,6	486,7	505,3	411,8	465,1	450,5	402,1	444,3	490,9	542,4	599,2	662,1	731,5	
1Y Growth	*25,5%*	*12,83%*	*19,60%*	*4,00%*	*11,48%*	*3,82%*	*-18,50%*	*12,94%*	*-3,14%*	*-10,74%*							11,48%
Other Current Assets, Total	3,2	20,1	4,6	8,4	8,0	5,0	1,6	3,0	6,7	2,2	2,4	2,7	3,0	3,3	3,6	4,0	
1Y Growth	*> 99%*	*528,13%*	*-77,11%*	*82,61%*	*-4,76%*	*-37,50%*	*-68,00%*	*87,50%*	*123,33%*	*-67,16%*							0,06%
Total Current Assets	1 016,5	966,5	1 210,3	1 334,0	1 494,9	1 638,6	1 541,7	1 608,6	1 688,6	1 982,2	2 190,1	2 419,8	2 673,6	2 954,0	3 263,9	3 606,2	
1Y Growth	*18,7%*	*-4,92%*	*25,23%*	*10,22%*	*12,06%*	*9,61%*	*-5,91%*	*4,34%*	*4,97%*	*17,39%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	56,60%
Property/Plant/Equipment, Total - N	328,8	409,1	398,4	436,5	426,2	399,6	313,6	306,9	1 128,9	1 098,5	1 213,7	1 341,0	1 481,7	1 637,1	1 808,8	1 998,5	
1Y Growth	*16,7%*	*24,42%*	*-2,62%*	*9,56%*	*-2,36%*	*-6,24%*	*-21,52%*	*-2,14%*	*267,84%*	*-2,69%*							31,37%
Goodwill, Net	81,2	86,3	80,2	88,8	88,8	99,6	88,4	108,6	109,3	105,2	116,2	128,4	141,9	156,8	173,2	191,4	
1Y Growth	*11,1%*	*6,28%*	*-7,07%*	*10,72%*	*0,00%*	*12,16%*	*-11,24%*	*22,85%*	*0,64%*	*-3,75%*							3,00%
Intangibles, Net	51,9	123,9	115,2	104,7	100,8	70,5	91,7	112,4	137,7	131,8	145,6	160,9	177,8	196,4	217,0	239,8	
1Y Growth	*24,8%*	*138,73%*	*-7,02%*	*-9,11%*	*-3,72%*	*-30,06%*	*30,07%*	*22,57%*	*22,51%*	*-4,28%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	3,76%
Long Term Investments	2,8	2,7	2,6	2,2	2,4	2,6	2,6	2,5	2,5	2,4	2,7	2,9	3,2	3,6	4,0	4,4	
1Y Growth	*-6,70%*	*-3,57%*	*-3,70%*	*-15,38%*	*9,09%*	*8,33%*	*0,00%*	*-3,85%*	*0,00%*	*-4,00%*							0,07%
Note Receivable - Long Term	--	39,9	42,3	60,5	66,5	76,4	69,2	44,0	51,0	42,3	46,7	51,6	57,1	63,0	69,7	77,0	
1Y Growth	*--*	*-*	*6,02%*	*43,03%*	*9,92%*	*14,89%*	*-9,42%*	*-36,42%*	*15,91%*	*-17,06%*							1,21%
Other Long Term Assets, Total	129,4	117,8	116,5	146,5	134,7	126,1	115,8	149,2	174,2	139,8	154,5	170,7	188,6	208,3	230,2	254,3	
1Y Growth	*39,0%*	*-8,96%*	*-1,10%*	*25,75%*	*-8,05%*	*-6,38%*	*-8,17%*	*28,84%*	*16,76%*	*-19,75%*							3,99%
Total Assets	1 610,6	1 746,2	1 965,5	2 173,2	2 314,3	2 413,4	2 223,0	2 332,2	3 292,2	3 502,2	3 869,5	4 275,4	4 723,8	5 219,3	5 766,7	6 371,5	
1Y Growth	*18,0%*	*8,42%*	*12,56%*	*10,57%*	*6,49%*	*4,28%*	*-7,89%*	*4,91%*	*41,16%*	*6,38%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	

Liabilities (£ Millions)																	
Accounts Payable	118,8	118,2	174,3	159,8	167,2	172,3	153,2	221,6	197,3	129,3	142,9	157,8	174,4	192,7	212,9	235,2	
1Y Growth	*38,5%*	*-0,51%*	*47,46%*	*-8,32%*	*4,63%*	*3,05%*	*-11,09%*	*44,65%*	*-10,97%*	*-34,47%*							3,69%
Accrued Expenses	161,6	184,2	188,6	225,0	190,7	245,6	263,5	262,7	223,3	221,3	244,5	270,2	298,5	329,8	364,4	402,6	
1Y Growth	*-1,80%*	*13,99%*	*2,39%*	*19,30%*	*-15,24%*	*28,79%*	*7,29%*	*-0,30%*	*-15,00%*	*-0,90%*							6,32%
Notes Payable/Short Term Debt	208,6	129,8	143,0	65,2	51,5	34,3	23,2	37,2	41,6	45,4	50,2	55,4	61,2	67,7	74,8	82,6	
1Y Growth	*23,9%*	*-37,78%*	*10,17%*	*-54,41%*	*-21,01%*	*-33,40%*	*-32,36%*	*60,34%*	*11,83%*	*9,13%*							1,30%
Current Port. of LT Debt/Capital Lea	--	--	--	--	--	--	--	--	215,5	210,0	232,0	256,4	283,3	313,0	345,8	382,1	
1Y Growth	--	--	--	--	--	--	--	--	*100,00%*	*-2,55%*							6,00%
Other Current liabilities, Total	107,8	131,3	125,8	130,8	129,6	112,9	113,0	118,6	52,8	96,8	107,0	118,2	130,6	144,3	159,4	176,1	
1Y Growth	*-6,70%*	*21,80%*	*-4,19%*	*3,97%*	*-0,92%*	*-12,89%*	*0,09%*	*4,96%*	*-55,48%*	*83,33%*							2,76%
Total Current Liabilities	596,8	563,5	631,7	580,8	539,0	565,1	552,9	640,1	730,5	702,8	776,5	858,0	947,9	1 047,4	1 157,2	1 278,6	
1Y Growth	*11,7%*	*-5,58%*	*12,10%*	*-8,06%*	*-7,20%*	*4,84%*	*-2,16%*	*15,77%*	*14,12%*	*-3,79%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	20,07%
Total Long Term Debt	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1 210,0	1 106,7	1 222,8	750,5	829,3	916,2	1 012,3	1 118,5	
1Y Growth	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*100%*	*-8,5%*							31,60%
Deferred Income Tax	1,4	0,8	1,0	0,9	0,6	0,4	4,2	3,4	0,1	0,8	0,9	1,0	1,1	1,2	1,3	1,5	
1Y Growth	*-22,2%*	*-42,86%*	*25,00%*	*-10,00%*	*-33,33%*	*-33,33%*	*950,00%*	*-19,05%*	*-97,06%*	*700,00%*							0,02%
Minority Interest	24,1	35,8	42,6	50,6	55,9	5,3	4,9	5,0	4,6	3,1	3,4	3,8	4,2	4,6	5,1	5,6	
1Y Growth	*19,9%*	*48,55%*	*18,99%*	*18,78%*	*10,47%*	*-90,52%*	*-7,55%*	*2,04%*	*-8,00%*	*-32,61%*							0,09%
Other Liabilities, Total	121,0	129,1	124,8	140,0	153,8	150,1	240,5	228,7	132,8	132,2	146,1	161,4	178,3	197,0	217,7	240,5	
1Y Growth	*27,9%*	*6,69%*	*-3,33%*	*12,18%*	*9,86%*	*-2,41%*	*60,23%*	*-4,91%*	*-41,93%*	*-0,45%*							3,77%
Total Liabilities	743,3	729,2	800,1	772,3	749,3	720,9	802,5	877,2	2 078,0	1 945,6	2 149,7	2 375,1	2 624,2	2 899,5	3 203,6	3 539,6	
1Y Growth	*14,2%*	*-1,90%*	*9,72%*	*-3,47%*	*-2,98%*	*-3,79%*	*11,32%*	*9,31%*	*136,89%*	*-6,37%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	55,55%
Shareholders Equity (£ Millions)																	
Common Stock, Total	0,20	0,20	0,20	0,20	0,20	0,20	0,20	0,20	0,20	0,20	0,22	0,24	0,27	0,30	0,33	0,36	
1Y Growth	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*	*0,0%*							0,01%
Additional Paid-In Capital	202,60	203,60	204,80	207,60	209,80	211,40	214,60	216,90	220,80	223,00	246,39	272,23	300,78	332,33	367,19	405,70	
1Y Growth	*5,2%*	*0,49%*	*0,59%*	*1,37%*	*1,06%*	*0,76%*	*1,51%*	*1,07%*	*1,80%*	*1,00%*							6,37%
Retained Earnings (Accumulated Defi	541,00	652,90	850,10	1 046,10	1 182,00	1 210,10	987,20	1 006,70	743,30	1 132,30	1 251,06	1 382,28	1 527,26	1 687,44	1 864,43	2 059,98	
1Y Growth	*36,9%*	*20,68%*	*30,20%*	*23,06%*	*12,99%*	*2,38%*	*-18,42%*	*1,98%*	*-26,16%*	*52,35%*							32,33%
Other Equity, Total	123,50	160,30	110,30	147,00	173,00	270,80	218,50	231,20	249,90	201,10	222,19	245,50	271,25	299,70	331,13	365,86	
1Y Growth	*-1,7%*	*29,80%*	*-31,19%*	*33,27%*	*17,69%*	*56,53%*	*-19,31%*	*5,81%*	*8,09%*	*-19,53%*							5,74%
Total Equity	867,30	1 017,00	1 165,40	1 400,90	1 565,00	1 692,50	1 420,50	1 455,00	1 214,20	1 556,60	1 719,9	1 900,3	2 099,6	2 319,8	2 563,1	2 831,9	
1Y Growth	*21,5%*	*17,26%*	*14,59%*	*20,21%*	*11,71%*	*8,15%*	*-16,07%*	*2,43%*	*-16,55%*	*28,20%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	44,45%
Total Liabilities & Shareholders' Equi	1 610,60	1 746,20	1 965,50	2 173,20	2 314,30	2 413,40	2 223,00	2 332,20	3 292,20	3 502,20	3 869,5	4 275,4	4 723,8	5 219,3	5 766,7	6 371,5	
1Y Growth	*18,0%*	*8,42%*	*12,56%*	*10,57%*	*6,49%*	*4,28%*	*-7,89%*	*4,91%*	*41,16%*	*6,38%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	*10,49%*	

Assumption:

In order to complement the Income Statement forecast produced previously, it was decided to also perform a projection for the Balance Sheet while having into account all the growth assumptions made previously for the Income Statement forecast to ensure that there are no problems related with data reconciliation.

To do so, firstly, it was computed an historical average of the year-to-year growth of Total Assets and Total Liabilities and Shareholders' Equity from FY2012 to FY2021. It ultimately produced an average YoY growth of 10.49%. Moreover, it was considered the weight of each variable included in the current and non-current assets on Total Assets and, at the same time, the weight of current and non-current liabilities and equity on Total Liabilities and Shareholders' Equity, registered in the last financial year (FY2021).

After gathering these two indicators, the Total Assets and Total Liabilities and Shareholders' Equity were projected until the FY2027 considering the historical average growth achieved of 10.49 %. Furthermore, to forecast each variable that is included in those two categories, the historical weight of each variable was multiplied by the total projected value of the assets and liabilities and shareholders' equity, respectively. Being that said, the weight of each variable remained stable for the forecasted period in comparison with FY2021.

This process allowed to produce a CAGR of 8.67% during the forecasted period (FY2022-FY2027) for both Total Assets and Total Liabilities and Shareholders' Equity.