CATÓLICA LISBON
BUSINESS & ECONOMICS

Equity Valuation of Burberry Group Plc

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Dissertation written under the supervision of António Borges de Assunção, with the collaboration of the industry expert José Tudela Martins

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Abstract

The purpose of this dissertation is to determine Burberry's price per share as of 31st of March 2021. Based on the current share price, an investment recommendation was issued. The valuation was supported by a current macroeconomic analysis, an industry overview, the company's business strategy and past financial performance. The share price was obtained through the combination of two valuation methods: the Discounted Cash Flow method and the Relative Valuation method. The valuation was then stressed through an alternative scenario analysis and a sensitivity analysis to acknowledge the uncertainty in the market. In the end, a price of £19.96 is achieved. When comparing with the share price as of 11th December 2020, a Hold recommendation is issued, with a potential upside of 10%.

Title: Equity Valuation of Burberry Group Plc
Author: Maria Ana Pardal
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Abstrato

O objetivo desta dissertação é calcular o preço por ação da Burberry a 31 de março de 2021. Com base no preço atual uma recomendação de investimento foi emitida. A avaliação vai ser suportada por uma análise do atual ambiente macroeconómico, uma análise da indústria, e por fim, uma análise da estratégia e desempenho financeiro da empresa. O preço foi obtido através de dois métodos de avaliação: *Discounted Cash Flow* e *Relative Valuation*. A avaliação foi testada através de uma análise de cenários e uma análise de sensibilidade, de forma a ter em consideração a incerteza vivida no mercado. Foi alcançado um preço de £19.96 por ação. Ao comparar o valor intrínseco com o preço de mercado a 11 de dezembro de 2020, é emitida uma recomendação para manter a ação, representando um ganho possível de 10%.

Título: Equity Valuation of Burberry Group Plc
Autor: Maria Ana Pardal
Palavras-chave: Avaliação Financeira, Preço por ação, DCF, Múltiplos, Burberry Group, Bens de luxo

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List of Abbreviations

3FF	Fama and French Three Factor Model
APV	Adjusted Present Value
BCG	Boston Consulting Group
BM	Baseline Model
CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditure
CAPM	Capital Asset Pricing Model
CER	Constant Exchange Rates
COGS	Cost of Goods Sold
D/E	Debt-to-Equity Ratio
D/V	Debt-to-Value Ratio
D&A	Depreciation & Amortization
DCF	Discounted Cash Flow
DDM	Dividend Discount Model
E/V	Equity-to-Value Ratio
EBIT	Earnings Before Interests and Taxes
EBITDA	Earnings Before Interests, Taxes, Depreciation and Amortization
EMEIA	Europe, Middle East, India and Africa
ERP	Equity Risk Premium
FCF	Free Cash Flow
FCFE	Free Cash Flow to Equity Holders
FCFF	Free Cash Flow to the Firm
FY	Fiscal Year
GDP	Gross Domestic Product
H1	1st half
H2	2nd half
IB	Investment Bank
IMF	International Monetary Fund
LT	Long-term
m	Million
Mar	March
MV	Market Value
OECD	Organisation for Economic Co-operation and Development
OPEX	Operating Expenses
OS	Optimistic Scenario
Plc	Public Limited Company
PLG	Personal Luxury Goods Industry
pp.	Percentage Points
PP&E	Property, Plant and Equipment
PS	Pessimistic Scenario
Q1	1st Quarter
ROIC	Return on Invested Capital
RoU	Right-of-Use Assets
SG&A	Selling, General & Administrative Expenses
TV	Terminal Value
WACC	Weighted Average Cost of Capital
YoY	Year-over-Year
YTM	Yield to Maturity

1 Introduction

The purpose of this dissertation is to determine Burberry's fair value per share on the 31st of March 2021. Burberry is a luxury goods company, responsible for the manufacture, distribution and selling of its products. The company is present across all the Personal luxury goods categories, but its focus lies on Luxury Fashion and Leather Goods. The brand is popularly known by its trench coats and scarves.

The motivation behind this particular company and industry lies in two aspects. First, the Personal Luxury Goods Industry was greatly affected by the COVID pandemic, as it is highly dependent on tourism and in-store interaction. Therefore, it will be interesting to understand the extent of the impact of the pandemic. Secondly, Burberry has been experiencing declining growth for the past few years, thus I am curious to see how the company navigates through these troubling times.

The research question for this dissertation can be formulated as follows:

"What is the fair value per share of Burberry Group Plc on the 31st of March 2021, and what is the implicit recommendation on the 11th December 2020?"

This paper is divided into six chapters. First, the Literature Review is presented, illustrating the state-of-the-art in equity valuation. Then a macroeconomic and industry overview is done, followed by an overview of Burberry's business and past financial performance. In Chapter 5, I determine Burberry's fair value per share through the DCF and Relative valuation models. Finally, in Chapter 6, I compare the results with the valuation model proposed by Credit Suisse.

2 Literature Review

Understanding what determines the value of a company and how we can estimate that value is a prerequisite for making sensible decisions.

2.1 Valuation Methodologies

There are three different models in valuing companies: discounted cash flow valuation (DCF), relative valuation, and the third is contingent claim valuation (Damodaran, 2011).

2.1.1 Discounted Cashflow Valuation

The valuation implied by a DCF is also known as intrinsic value (Rosenbaum & Pearl, 2009). This methodology is based on the present value rule, in which "the value of any asset is the present value of expected future cash flows that the asset generates" (Damodaran, 2013).

Formula 1: Present Value of future cash flows

$$Value = \sum_{t=1}^{t=n} \frac{CF_t}{(1+r)^t}$$

where,

$n = life\ of\ the\ asset$

$CF_t = Cash\ Flow\ in\ period\ t$

$r = discount\ rate\ reflecting\ the\ riskiness\ of\ estimated\ cash\ flows$

For this approach, we have two main elements: the estimates of the future cash flows of the company and the discount rate. In the sections below these two key elements will be discussed. There are three possible paths to a DCF valuation: (1) value just the equity stake in the business; (2) value the entire firm, which includes all claim holders of the company and (3) value the firm in pieces (APV valuation).

2.1.1.1 The Dividend Discount Model

The simplest model for valuing equity is the dividend discount model (Damodaran, 2013). This model defines cash flows as dividends, since an investor who buys and holds a share of stock generally receives cash returns only in the form of dividends (Pinto et al., 2014). The two critical inputs of this model are the expected dividends and the cost of equity (section 2.2.1.4.2).

Formula 2: DDM general formula

$$Value\ per\ share\ of\ stock = \sum_{t=1}^{t=\infty} \frac{E(DPS_t)}{(1+k_e)^t}$$

where,

$E(DPS)_t = expected\ dividend\ per\ share\ in\ period\ t$

$k_e = cost\ of\ equity$

However, in most cases, dividends cannot be projected forever. Several versions of the DDM have been developed based upon different assumptions about future growth (Damodaran, 2013). The most used ones are:

a) The Gordon Growth Model, which assumes that dividends grow indefinitely at a constant rate (Pinto et al., 2014). This is a simple model but is it highly dependent on the assumption for the growth rate;
b) Two-Stage Dividend Discount Model, which allows for two stages of growth: an initial phase, in which the growth rate is not stable and a subsequent steady state where the growth rate is expected to remain stable for the long term (Damodaran, 2007).

Overall, this model has its shortcomings, it is only applicable to stable companies that have a proven record of paying out dividends, and some consider it to be highly conservative while estimating value. This model will not be considered for the valuation of Burberry due to its limitations.

2.1.1.2 Free Cash flow Models

"Whereas dividends are the cash flows actually paid to stockholders, free cash flows are the cash flows available for distribution to shareholders." (Pinto et al., 2014).

As a DCF valuation model, the FCF model relies on the present value rule. However, it is not possible to project a company's FCF indefinitely. Therefore, a terminal value is computed to capture the value of the firm beyond the projection period (Rosenbaum & Pearl, 2009). There are two commonly accepted methods to calculate the terminal value:

a) Exit Multiple Method: calculates the terminal value based on a multiple of its terminal year EBITDA (or EBIT). The multiple is based on the current long-term trading multiples of comparable companies.

Formula 3: Terminal Value (Exit Multiple)

$$Terminal\ Value = EBITDA_n \times\ Exit\ Multiple$$

b) Perpetuity Growth Method: terminal value is computed by considering that the final year FCF grows in perpetuity.

Formula 4: Terminal Value (Perpetuity)

$$Terminal\ Value = \frac{FCF_n \times (1+g)}{(r-g)}$$

Where,

$FCF = Unlevered\ FCF$

$n = terminal\ year\ of\ the\ projection\ period$

$g = perpetuity\ growth\ rate$

$r = discount\ rate$

Free Cash Flows can be subdivided into Free Cash Flows to the Firm and Free Cash Flows to Equity.

2.1.1.2.1 Free Cash flow to the Firm

"The free cash flow to the firm is the cash flow available to all claim holders of the firm (bondholders, stockholders and preferred stockholders), after all operating expenses (including taxes) have been paid, and necessary investments in working capital and fixed capital have been made" (Pinto et al., 2014). FCFF can be calculated through the following formula:

Formula 5: Free Cash Flow to the Firm

EBIT
- Taxes
= Earnings Before Interest After Taxes
+ Depreciation & Amortization
- CAPEX (Capital Expenditures)
- Increase/(decrease) in Net Working Capital
= Free Cash Flow to the Firm (FCFF)

The value of the firm's operating assets is obtained by discounting the free cash flow to the firm at the weighted average cost of capital (Damodaran, 2007). To arrive at the firm value, the

value of non-operating assets should be added (Damodaran, 2013). The value of equity can then be found by subtracting the value of debt and other non-equity claims to the value of the firm (Koller et al., 2015). By discounting all future cash flows at the WACC, an implicit assumption is made that the company keeps its capital structure constant and at a target level (Koller et al., 2015).

This model will be used for the valuation of Burberry as it provides a complete analysis of the company. For the implementation of this method, the company must have a stable capital structure. The company's D/E ratio increased to 1.2 in FY2020 (vs 0.02 in FY2019), because of the implementation of IFRS 16 in the company's balance sheet. However, it is expected to remain stable, and at that level for the foreseeable future.

2.1.1.2.2 Free Cash flow to Equity (FCFE)

"FCFE is the cash flow available to the company's holders of common equity, after all, operating expenses, interest, and principal payments have been paid and necessary investments in working and fixed capital have been made" (Pinto et al., 2014). In this model, potential dividends are discounted rather than actual dividends (Damodaran, 2007). The formula to compute FCFE can be found below[1]:

Formula 6: Free Cash Flow to Equity

Net income
+ Depreciation
- Capital Expenditures
- Change in Net Working Capital
- (Preferred Dividends + New Preferred Stock Dividend)
+ (New debt Issued - Debt Repayments)
= Free Cash Flow to Equity (FCFE)

The formula for FCFE can also be derived from FCFF, following the formula below:

Formula 7: Alternative Formula FCFE

Free Cash Flow to the Firm (FCFF)
- Interest Expense x (1- Tax Rate)
+ (New Debt Issued - Debt Repayments)
= FCFE

[1] This formula assumes the company has preferred dividends.

The value of equity can be directly computed by discounting FCFE at the required rate of return for equity (section 2.2.1.4.2). The two FCF approaches should yield the same estimates if the inputs reflect identical assumptions (Pinto et al., 2014).

2.1.1.3 Adjusted Present Value (APV)

APV model relies on the principle of value additivity (Luehrman, 1997), it estimates the value of the firm in 3 components. First, it begins by valuing the company as if it were all-equity financed. Then it considers both the benefits and the costs of borrowing (Damodaran, 2013). The value of the business can then be found through the following formula:

Formula 8: APV formula

$$Value\ of\ the\ firm = V_U + PV(ITS) - PV(Bankruptcy\ Costs)$$

where,

$V_U = value\ of\ the\ firm\ unlevered$

$PV(ITS) = present\ value\ of\ interest\ tax\ shield$

The first step is to compute the value of the unlevered firm, which can be done by discounting the FCFF at the unlevered cost of equity (Fernández, 2007). Formula 9 displays how to compute the unlevered cost of equity.

Formula 9: Unlevered Cost of Equity

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

where,

$k_e = observed\ cost\ of\ equity$

$k_u = unlevered\ cost\ of\ equity$

$\frac{D}{E} = market\ debt - to - equity\ ratio$

$k_d = cost\ of\ debt$

The next step is to compute the value of the interest tax shield. Different authors have considered various approaches throughout the years. Cooper and Nyborg (2006) argue that the correct approach should be to discount the value of interest tax savings at the cost of debt.

Supposing that tax savings run in perpetuity, the value of tax benefits can be computed through Formula 10 (Damodaran, 2013).

Formula 10: Value of Tax Benefits

$$Value\ of\ Tax\ Benefits = \frac{\tau_c \times k_d \times D}{k_d} = \tau_c \times D$$

Where,

$\tau_c = corporate\ tax$

$k_d = cost\ of\ debt$

$D = market\ value\ of\ debt$

The final step is to estimate the costs of bankruptcy. According to Damodaran (2007), this requires "the estimation of the probability of default with the additional debt and the direct and indirect cost of bankruptcy". This is the significant shortfall of this model, as it cannot be directly estimated the probability of default nor the expected bankruptcy costs. However, this approach is preferred by some analysts because none of the components is buried in the discount rate (Luehrman, 1997) and it works exceptionally well in firms with changing capital structure (Inselbag & Kaufold, 1997).

2.1.1.4 Key Inputs in DCF Valuation

2.1.1.4.1 Growth Rate

According to Damodaran (2013), there are three basic ways of estimating growth for any firm:

- Estimating growth based on the historical growth rate;
- Using the growth rate estimated by equity research analysts;
- Estimate the growth from a firm's fundamentals.

The firm's growth rate should be less than or equal to that of the economy. Otherwise, the firm would be unrealistically large relative to the aggregate economy (Koller et al., 2015).

2.1.1.4.2 Cost of Equity

Cost of equity is the required rate of return that a company's equity investors expect to receive (Rosenbaum & Pearl, 2009). The most two well-known models to estimate the cost of equity are the Capital Asset Pricing Model (CAPM) and the Fama-French Three-factor model (Koller et al., 2015).

Formula 11: CAPM Formula

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

Where,

$E(R_i) = Expected\ Return\ of\ security\ i$

$R_f = Risk\ free\ rate$

$\beta_i = Beta\ of\ security\ i$

$\left[E(R_M) - R_f\right] = Equity\ Risk\ Premium\ (ERP)$

$E(R_M) = Expected\ Return\ on\ the\ market\ portfolio$

- Fama and French (1993) propose a three-factor model in which a security's expected return depends not only on the sensitivity of its return to the market return but also on other two portfolios that are meant to mimic additional risk factors.

Formula 12: Fama and French 3-factor model

$$E(R_i) = R_f + \beta_i^{mkt}[E\left(R_M\right) - R_f\big] + \beta_i^{size}E(SMB) + \beta_i^{value}E(HML)$$

Where,

SMB = difference in returns of a portfolio of small stocks and a portfolio of big stocks

HML = difference in returns of a portfolio with high book-to-market stocks and a portfolio of low book-to-market stocks

The CAPM model provides an economically grounded and relatively objective procedure for required return estimation, while the 3FF model is solely based on empirical evidence (Koller et al., 2015). Therefore the CAPM is usually the most common choice for estimating the cost of equity (Damodaran, 2013) and will be used to estimate Burberry's cost of equity.

2.1.1.4.2.1 Risk-free Rate

The risk-free rate is the expected rate of return obtained by investing in a "riskless" security (Rosenbaum & Pearl, 2009). Since there are no risk-free investments, the risk-free rate is usually approximated by reference to the yield on long-term debt instruments issued by

financially healthy governments. As stated by Damodaran and Koller (2008; 2015), the currency of the risk-free rate should be consistent with the currency of the cash flows. As Burberry is based in the UK, the UK 10-year bond yield will be used as a proxy for the risk-free rate.

2.1.1.4.2.2 Beta

Beta is a measure of systematic risk, therefore, stocks with higher beta have a higher cost of equity (Rosenbaum & Pearl, 2009). A stock with a beta of 1 indicates that its price is strongly correlated with the market.

There are different approaches to forecast beta. The most straightforward estimate of beta results from an ordinary least squares regression of the return on the stock on the return on the market (Pinto et al., 2014). From this, we get an unadjusted or "raw" historical beta. Blume (1975) proposed an adjustment, which is the most commonly used.

Formula 13: Blume Adjusted Beta

$$Adjusted\ beta = \frac{2}{3} \times Unadjusted\ beta + \frac{1}{3} \times 1$$

2.1.1.4.2.3 Equity Risk Premium

The market risk premium is the spread of the expected market return over the risk-free rate (Rosenbaum & Pearl, 2009). As the true market portfolio is not observable, analysts use a proxy. An example is the MSCI Europe Index or MSCI World Index, which is a value-weighted index comprising large stocks from 23 developed countries (Koller et al., 2015). Empirically, the equity premium used on Wall Street usually ranges from 4% to 8% (Rosenbaum & Pearl, 2009). In this dissertation, the Damodaran estimates for the ERP will be employed.

2.1.1.4.2.4 Country Risk Premium

The country risk premium is the premium investors demand to compensate for the risk of investing in a foreign country (Damodaran, 2013). As Burberry is present in 59 countries, this risk is considered to be diversified.

2.1.1.4.3 Cost of Debt

There are different methods to estimate a company's cost of debt. When the company has long-term bonds outstanding that are widely traded, the best approach is to use the promised yield on the newly issued debt as a proxy for the cost of debt (Cooper & Davydenko, 2007). In case the company does not have any trading debt, assign a credit rating to the firm and then calculate the average yield on a portfolio of long-term bonds with the same credit rating (Koller et al., 2015). This can be used as a proxy for the company's implied yield on long-term debt.

2.1.1.4.4 Weighted Average Cost of Capital

"WACC is the required return on the operating assets of a firm." (Cooper & Davydenko, 2007).

Formula 14: WACC Formula

$$WACC = \frac{D}{V} k_d (1 - t) + \frac{E}{V} k_e$$

Where,

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

$k_d = Cost\ of\ debt$

$t = Effective\ tax\ rate$

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

$k_e = cost\ of\ equity$

When calculating the WACC, the debt and equity should be in market values, and the debt ratio should be constant throughout time, otherwise, WACC will not be stable, and we cannot use it in the perpetuity formula (Booth, 2002).

2.1.2 Relative Valuation

The relative valuation methodology is based on the economic principle that two identical assets should sell at the same price, i.e. the Law of One Price (Pinto et al., 2014). This methodology is designed to reflect the "current" valuation based on the market environment and investors

sentiment (Rosenbaum & Pearl, 2009). Therefore, it can be an important complement to the DCF valuation (Fernández, 2001). Empirical evidence suggests forward-looking multiples reflect value better than historical multiples (Liu et al., 2002). However, its use is highly dependent on the quality of the peer group chosen. Comparable companies should have similar business profiles and, above all, should have similar expectations for growth and ROIC (Goedhart et al., 2005).

There are two main types of valuation multiples, enterprise value multiples and price multiples (Pinto et al., 2014). Fernández (2001) presents evidence on the most widely used valuation methods and notes that EV/EBITDA and P/E are the most frequently employed.

For the valuation of Burberry, a relative valuation will be conducted to complement the DCF approach. According to Fernández (2001), the most commonly used multiples in the Luxury Goods industry are the P/E, PEG, EV/EBITDA and EV/Sales.

2.1.2.1 P/E Ratio

As valuation is forward-looking, the forward P/E ratio is usually employed by analysts (Pinto et al., 2014). It is given by a stock's current price divided by next year's expected earnings. This multiple is popular among analysts as earnings are an essential driver of investment value. However, they can be highly influenced by capital structure (Goedhart et al., 2005) and can yield positively biased estimates (Lie & Lie, 2002). Therefore, it should be used in conjunction with an enterprise value multiple. This multiple will be used to value Burberry.

2.1.2.2 PEG Ratio

The PEG ratio addresses the impact of earnings growth on the P/E ratio (Pinto et al., 2014), therefore, it can control for different growth rates across the peer group (Koller et al., 2015). It is computed as the stock's P/E ratio divided by the expected growth rate. However, some argue that it is too simplistic as it assumes long-run future growth is captured by the short-run growth forecast (Easton, 2004). Even though this multiple makes it easier to understand whether a stock is undervalued or overvalued, it is a noisier approach and will attain the same conclusions as the P/E ratio. Hence, it will not be used for the valuation of Burberry.

2.1.2.3 EV/EBITDA

As an enterprise value multiple, EV/EBITDA is a valuation indicator for the overall company. Therefore, it is usually less prone to manipulation by changes in capital structure then P/E (Koller et al., 2015), making it more appropriate for comparing companies with different leverage (Pinto et al., 2014). Even though Burberry is in a non-capital-intensive industry, it has been increasing its depreciation over the years, thus EBITDA controls for the differences in depreciation and amortization across the peer companies (Pinto et al., 2014). This multiple will be used for the valuation of Burberry.

2.1.2.4 EV/Sales

EV/Sales multiple can be helpful in industries with unstable or negative profits or when there is high volatility of profit margins (Koller et al., 2015). As this is not the case for Burberry, this multiple will not be considered for the valuation of the company.

2.1.3 Contingent Claim Valuation

This methodology is based on option pricing models that value assets with options characteristics (Damodaran, 2013). While a DCF valuation is based on a single static decision, real options assume a multidimensional dynamic series of decisions, in which management has the flexibility to adapt to a changing environment (Mun, 2006). This model works well for companies that have patents or work with oil reserves and gold mines. As Burberry does not possess any options characteristics, this approach will not be considered for the valuation of the company.

3 Industry Overview

To forecast Burberry's financial performance is important to understand the economic and industry context the company operates in. In this chapter, I will provide a macroeconomic outlook, as well as an industry overview to understand what possible threats/opportunities the company may face.

3.1 Macroeconomic Outlook

COVID-19 has set-off an indistinguishable global crisis, which is expected to lead to the deepest global recession since the second world II (World Bank Group, 2020). The mitigation measures needed to constraint the health crisis, have profoundly affected consumption and investment, as well as restricted labor supply and production.

Global growth is expected at -4.9% in 2020, and the recovery from the health crisis is projected to be more gradual than initially expected (IMF, 2020). The outbreak has hit all major economies, and they are set to contract sharply in 2020.

In the US, growth is anticipated to decline by -8% in 2020 (IMF, 2020). The country's unemployment claims are rising faster than expected, and industrial production and retail sales have fallen much more sharply. A gradual recovery is expected for H2 of 2020 (World Bank Group, 2020).

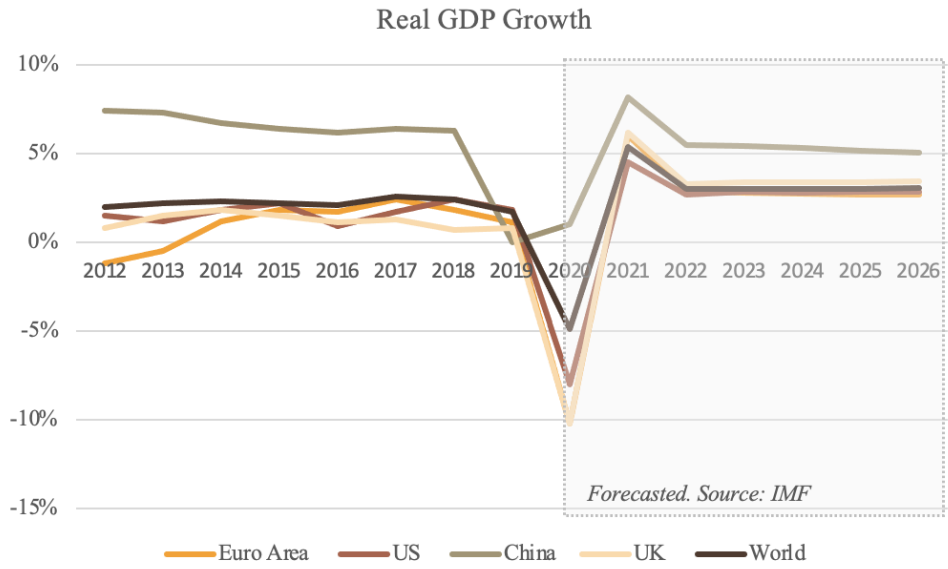
In the Euro Area, COVID-19 has deeply disrupted economic activity. Many members are heavily reliant on tourism, a sector that was shut down by government policies. Euro Area growth is expected to contract by 10.2% (IMF, 2020), with all major members experiencing a recession before the gradual growth expected at the end of the year.

Emerging economies are expected to contract by 3% (IMF, 2020), being more severe in countries with large domestic outbreaks and that rely heavily on global trade, tourism, commodity exports and external financing (World Bank Group, 2020).

China's output contracted severely in the first quarter when the first outbreak occurred. However, activity has normalized in the second quarter, and the economy is showing signs of a recovery. China is the only country in the world with a positive expected growth in 2020 (1%), supported in part by policy stimulus (IMF, 2020).

Figure 1 displays the forecasted GDP growth rates for Burberry main markets.

Figure 1: Real GDP Growth (IMF, 2020)

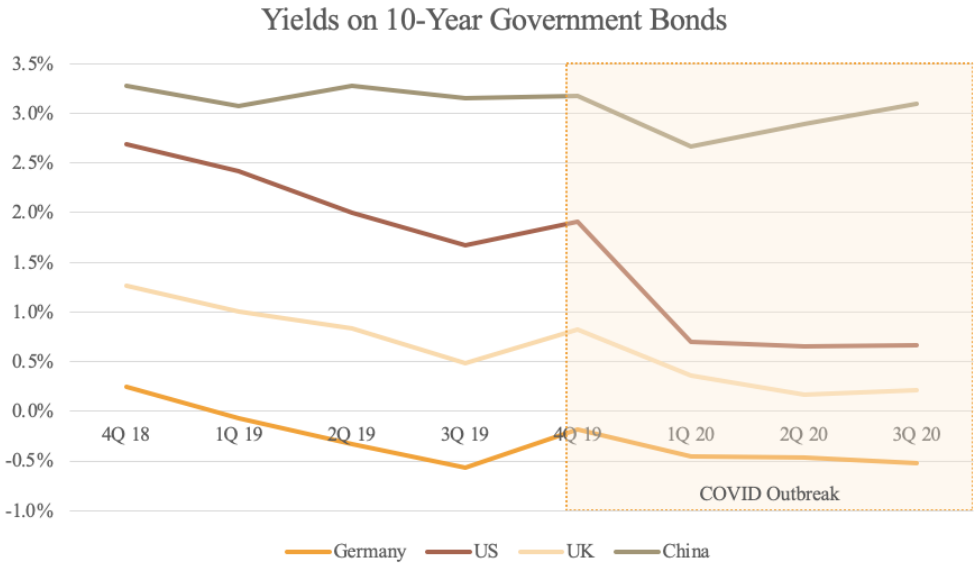


There is high uncertainty surrounding economic outlooks, as they are dependent on the magnitude and persistence of the adverse shock.

IMF (2020) outlines three possible scenarios for the near future, which can be found in Appendix 1. A similar alternative scenario analysis will be conducted for the valuation of Burberry.

Figure 2 presents yields on the US, Germany, UK and Chinese 10-year Government Bonds (Reuters, 2020). At the beginning of 2020 yields on all four countries have sharply declined, suggesting low confidence in the market. Thus far, China seems to be the only country with a considerable recovery.

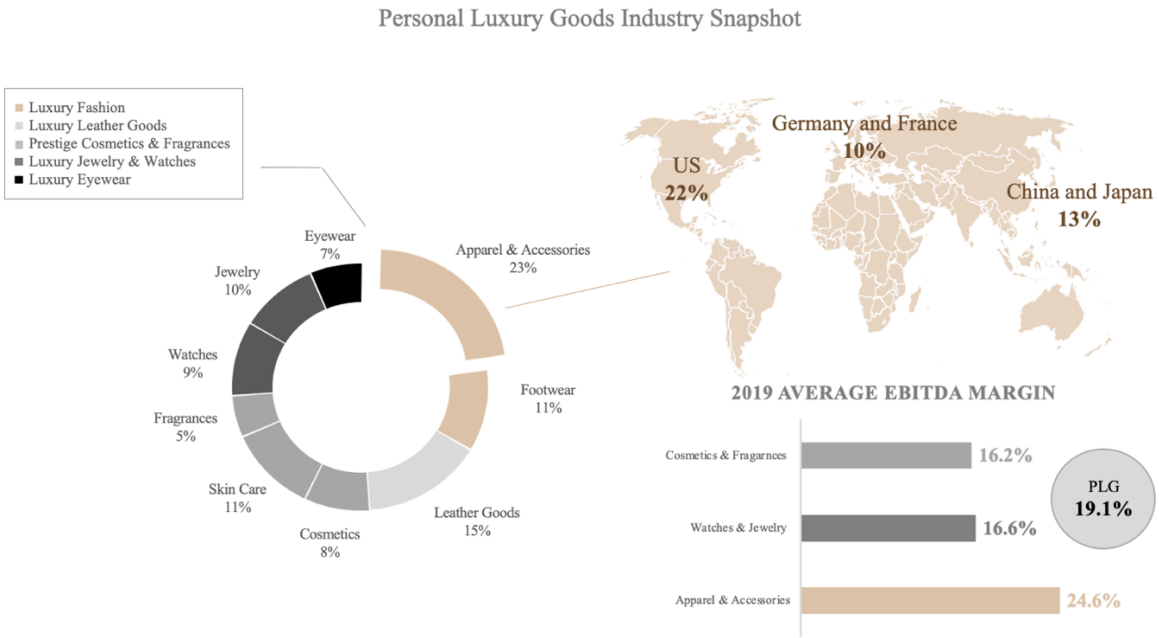
Figure 2: Yields on 10Y Government Bonds



3.2 Industry Analysis

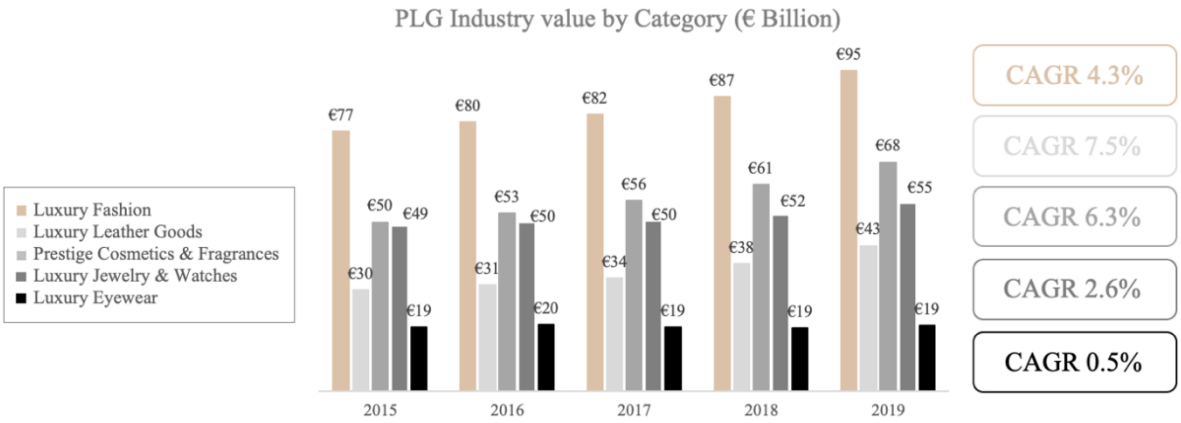
The Personal Luxury Goods industry is represented by companies that offer premium products in several categories, such as jewelry, apparel, accessories, and cosmetics. Burberry Group is mainly present in apparel and accessories.

Figure 3: PLG by Product Category (based on revenues for 2019). Source: Statista (2020) and Deloitte (2020b)



The PLG market was valued at €281 billion in 2019, growing at a CAGR of 5.7% between 2015 and 2019 (Deloitte, 2020b). The Luxury Fashion category represented the highest proportion in the market (34%), but Leather Goods was the fastest-growing category.

Figure 4: Value of PLG industry by product categories. Source: Statista (2020)



Generation Z and Millennial shoppers drove growth. The acceleration of Chinese demand also fueled industry growth, which was mainly driven by an increase in the middle class and a boost in willingness to buy luxury products (Bain & Company, 2019). In 2019, Chinese customers accounted for 35% of the value of the luxury market (Bain & Company, 2019).

In the US, domestic confidence boosted consumption. However, a decrease in the tourism flow led to sluggish growth. The US PLG market reached €84 billion, remaining a core region for the industry (Bain & Company, 2019).

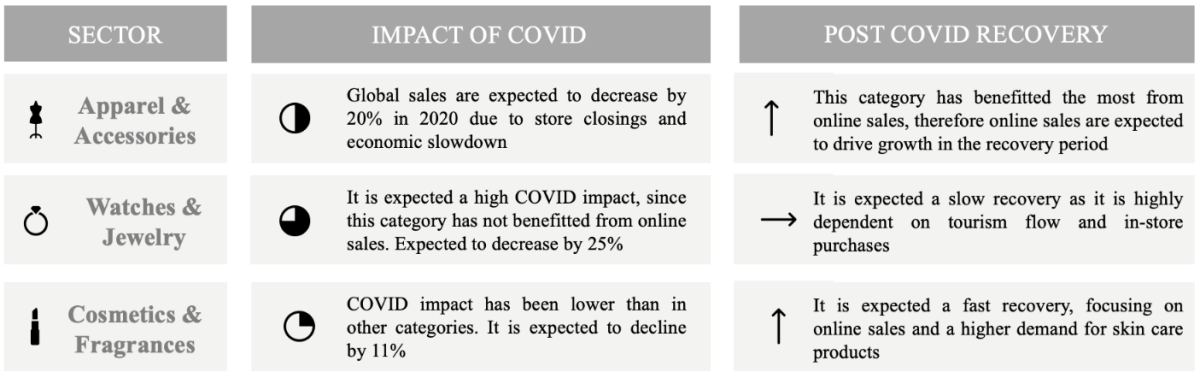
Europe experienced an increase of 1%. Spain and the UK were top performers, driven by tourism flow and weak currency (Bain & Company, 2019)

3.2.1 The Impact of COVID-19

Even before the COVID-19, fashion leaders were worrying about the years ahead. The industry had been experiencing a decline in growth for the last few years. It was expected to grow at a lower rate in 2020 (vs 2019), which already stemmed from macroeconomic uncertainty and the continued threat of trade wars. Additionally, companies were already dealing with consumer shifts: call for digital media and sustainable actions (BoF & McKinsey & Company, 2020).

The pandemic has shaken up the PLG industry, sales in 2020 are expected to decline sharply, and there is substantial uncertainty about the ability of many brands to rebound (BCG, 2020).

Figure 5: The impact of COVID-19 in the core segments of the PLG industry (Deloitte, 2020b)



The health crisis could be especially damaging for companies that do not have a vertically integrated distribution model and for those that are still dependent on wholesalers' channels to reach new customers (BoF & McKinsey & Company, 2020)

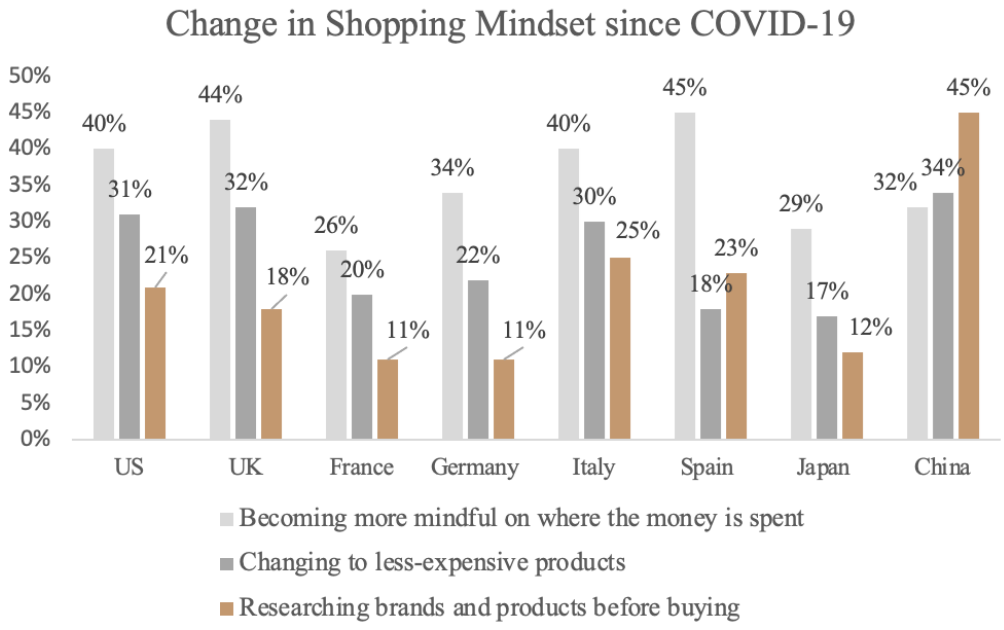
The lockdown measures forced brands to close many, if not all, of their stores around the world, which had a drastic impact on sales, as they were unable to showcase most of their spring collection. Additionally, the PLG industry is still very reliant on in-person purchases, with online sales representing only 12% of PLG total industry value in 2019 (BoF & McKinsey & Company, 2020).

COVID-19 has also brought travel restrictions. OECD (2020) estimates point to a 60% decline in international tourism in 2020. This has had a dramatic impact on the PLG industry, as 20 to 30% of the industry revenues are generated by consumers making purchases outside of their home countries.

Consumer behavior has also changed. With unemployment rates going up and uncertainty around what the future holds, many consumers have taken a more cautious role when shopping.

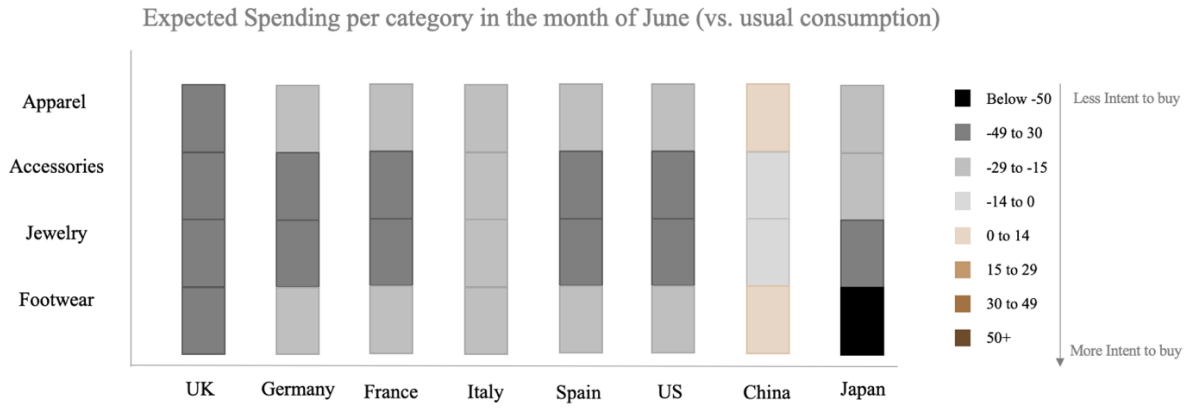
Figure 6 shows that many consumers have more attention to where their money is spent, and many of them are opting for cheaper alternatives.

Figure 6: Change in Shopping Behavior (% of respondents who are doing more of a stated activity). Source: (McKinsey & Company, 2020a)



Consumers changed their spending primarily to essentials, such as groceries, and are cutting back on discretionary categories (McKinsey & Company, 2020a). A study provided by McKinsey showed that Jewelry and Accessories were the most problematic areas, with customers having less intent to invest in those categories. Chinese consumers demonstrated little changes in their consumption habits (Figure 7).

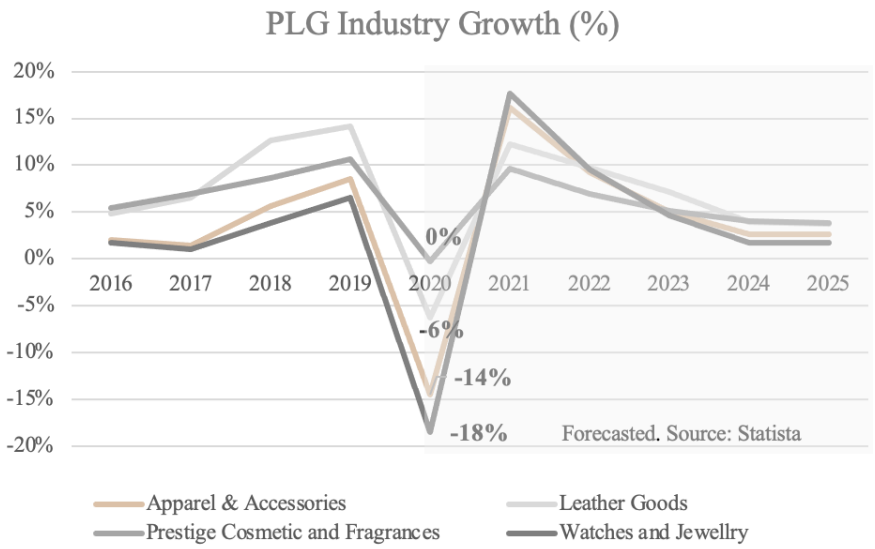
Figure 7: Expected spending per category in June, Source: (McKinsey & Company, 2020a)



Overall, the impact of COVID in PLG will be initially less severe than in other luxury sectors (Hotels and Cruises). However, a more gradual recovery is expected, with a CAGR of around 1.9% between 2019 and 2025 (Deloitte, 2020b). According to a survey provided by Deloitte (2020b), Europe and Americas are expected to have a more prolonged demand contraction,

with sales decreasing between 30 to 40% in 2020 (vs 2019) and a recovery period from 12-18 months. In China and Japan, PLG companies expect a lower demand contraction, between 5 to 10% and a recovery period from 6-12 months. Following Statista forecasts, Luxury Watches and Jewelry will be the most affected category, which is in accordance with the research provided by Deloitte (Figure 5).

Figure 8: PLG YoY industry growth



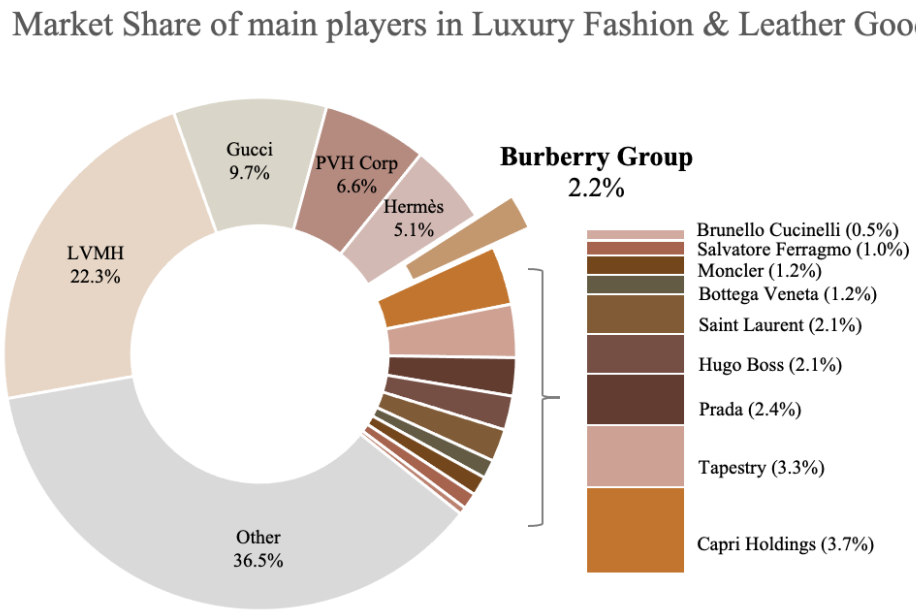
Mainly three factors will determine the capability of a company to recover from the pandemic successfully: the health of the balance sheet before COVID-19, the resilience of the operating model (digital channels, the agility of the supply chain and dependence on wholesalers) and its response to the health crisis (McKinsey & Company, 2020b).

3.2.2 Industry Players

The PLG industry is a very segmented market, composed of numerous players across the different categories. Since Burberry is mainly focused on Luxury Fashion and Leather goods, I will identify its competitors in that segment of the market to simplify the analysis.

Figure 9 displays the market shares of the main competitors in the sector. LVMH (Fashion & Leather division) presents the highest share in the market, but it is also the biggest conglomerate in the industry, with 17 houses in this sector. Among those, it is important to highlight Louis Vuitton, which has a strong presence in Leather Goods. Kering also has a high share in the market (13.7%), mainly driven by the Gucci brand. Hermès is the mono-brand company with the highest market share, followed by Prada and then Burberry, with a market share of 2.2%.

Figure 9: Market Share of leading players in Luxury Fashion & Leather Goods (based on 2019 revenues). Source: Statista, Thomson Reuters



3.2.3 Key Industry Trends

There are four trends and strategic actions that must be considered for post-COVID; these can be found in Appendix 2.

4 Company Overview

A key component of valuation is analyzing the company's historical performance, as it can provide critical insights when forecasting its future (Koller et al., 2015). In this chapter, I will do a brief overview of the company's business strategy and analyze past financial performance to understand possible trends for the future.

4.1 Business Analysis

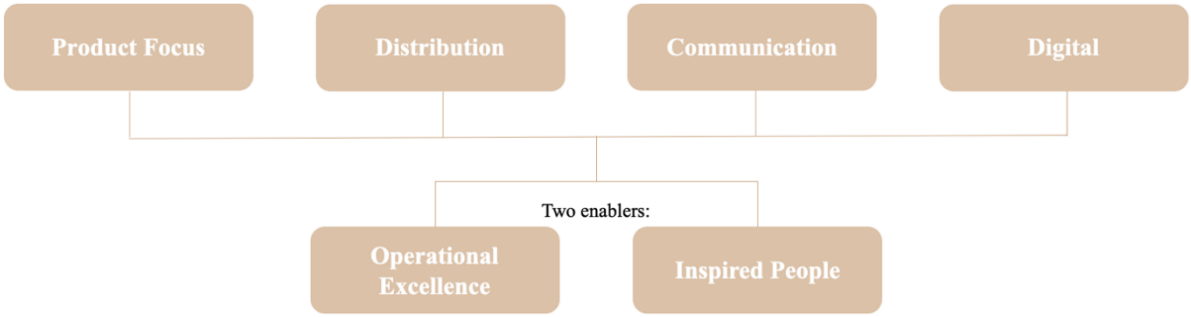
Burberry Group is a global luxury goods brand founded in 1856 by Thomas Burberry. Currently, it has headquarters in London, and it is run by Marco Gobbetti (since 2017), whose focus is to maintain the company's British heritage. The company has centralized activities for designing, sourcing, manufacturing, and distributing luxury apparel and accessories for women, men, and children. Its product line consists of apparel, accessories, beauty, and eyewear. The company sells its products through its stores, which can be directly operated or franchised, through its online channel and wholesale partners. In Beauty and Eyewear, they use the product and distribution expertise of their licensing partners (Burberry Group, 2020a). The company is present in 59 countries and has 9,892 employees spread across de globe.

4.1.1 Burberry's Mission and Strategy

Burberry's purpose is embedded in the phrase *"Creativity Opens Spaces"*, as the company strongly believes in the power of creativity to open new possibilities. This, along with the company's core values, drive the decisions made today and in the future.

As of November 2017, Burberry decided to change its course of strategy to improve productivity and efficiency, but also to exploit significant future revenue growth opportunities. Today this strategy lies on four revenue drivers and two enablers.

Figure 10: Burberry's Strategic Drivers



The company decided to focus on Luxury Fashion (apparel and accessories) and Leather Goods, in which they can concentrate their creativity to reach new consumers and, at the same time, delight their existing consumer base. In this sense, as part of its strategic program, the company entered into an agreement with Coty Geneva SARL Versoix to grant a license to develop, manufacture, market, distribute and sell Burberry Beauty products (Burberry Group, 2020a).

Recently, through an increased presence in flagship locations and marketing campaigns, the company has elevated the brand to a higher price positioning. This was driven by brand elevation (by focusing on Luxury Fashion) and boosted by the China boom. However, Burberry is still less firmly established than some of its French and Italian peers. Burberry's pricing is below Prada and Gucci in most categories, apart from scarves where its priced in line with the big luxury peers. In terms of Trench Coats, Burberry is the clear market leader, which allows them to achieve stronger margins in this category.

The company developed a multi-year retail excellence program, to elevate customer service and enhance the luxury store experience. Finally, it also focuses on E-commerce Leadership, by creating seamless omnichannel experiences, creating personalized products and accelerating digital partnerships (Burberry Group, 2020a). The company implemented augmented reality concepts in its physical stores and online portals to offer enhanced shopping experiences to its customers. As an example, the company opened this summer a Social Retail store in Shenzhen, which will offer unique experiences that connect luxury customers' social and online lives to their physical environment using technology powered by Tencent.

Burberry was one of the first luxury brands to invest in digital capabilities, allowing it to capture maximum customer data across channels and different territories.

These revenue-focused strategies are possible through operational excellence and inspired people. Its operational excellence program focuses on improving the efficiency and

effectiveness of core processes, such as realizing savings through procurement and optimizing inventory management.

Sustainability also has a crucial role in the company's strategy, as they are dedicated to reducing their environmental footprint and enabling social progress, through powerful collaborations.

A SWOT analysis can be found in Appendix 3 to further look into Burberry's strengths and weaknesses.

4.1.2 Response to COVID-19

As analyzed in Chapter 3, COVID-19 has brought significant challenges to the luxury industry. Diminished demand will increase competition, therefore, for the near future, Burberry will put on hold its long-term strategic program, to focus on four key success factors. First, emphasize the Brand by strengthening Burberry's luxury position, making its strategic choice to focus on Luxury Fashion even more important, and enhancing emotional connections with the customers, by creating more personalized content and concentrating on storytelling. Second, Localization, the company will localize its go-to-market approach, acknowledging the local environment and consumer sentiment. China will be a crucial location, as its recovery is ahead of other markets. Third, Direct-to-Consumer and Digital, the company will adjust its distribution format to best capture sales opportunities, by innovating the way they reach to their customers. Finally, focus on Product, Inventory and Supply Chain. Burberry expects a greater shift in demand towards leather goods, thus they are enhancing their product proposition. The company is also closely managing their stock position by reducing the production of upcoming collections and re-allocating resources across regions to meet demand.

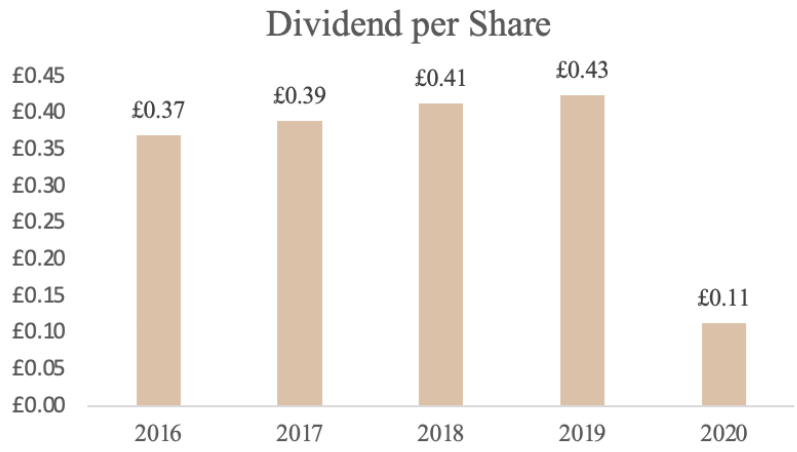
Burberry also implemented some mitigation actions to protect its financial position and to contain costs. These included renegotiating rent, reducing recruitment and discretionary spending, and prioritizing capital expenditure.

4.1.2 Burberry's Capital Allocation Framework

The Capital Allocation Framework is applied to prioritize the use of cash generated by Burberry Group, and it addresses the investment needs of the business, regular dividends payments and additional return to shareholders (Burberry Group, 2020a). The goal of the company is to maintain an "appropriate capital structure for the business and a strong balance sheet with solid investment-grade credit metrics" (Burberry Group, 2020a). Due to COVID-19, the company announced it would take a prudent approach, in the short-term, by conserving cash and securing

liquidity. Therefore, the company will reduce capital investment and will not declare a final dividend for FY2020.

Figure 11: Historical Dividend per share



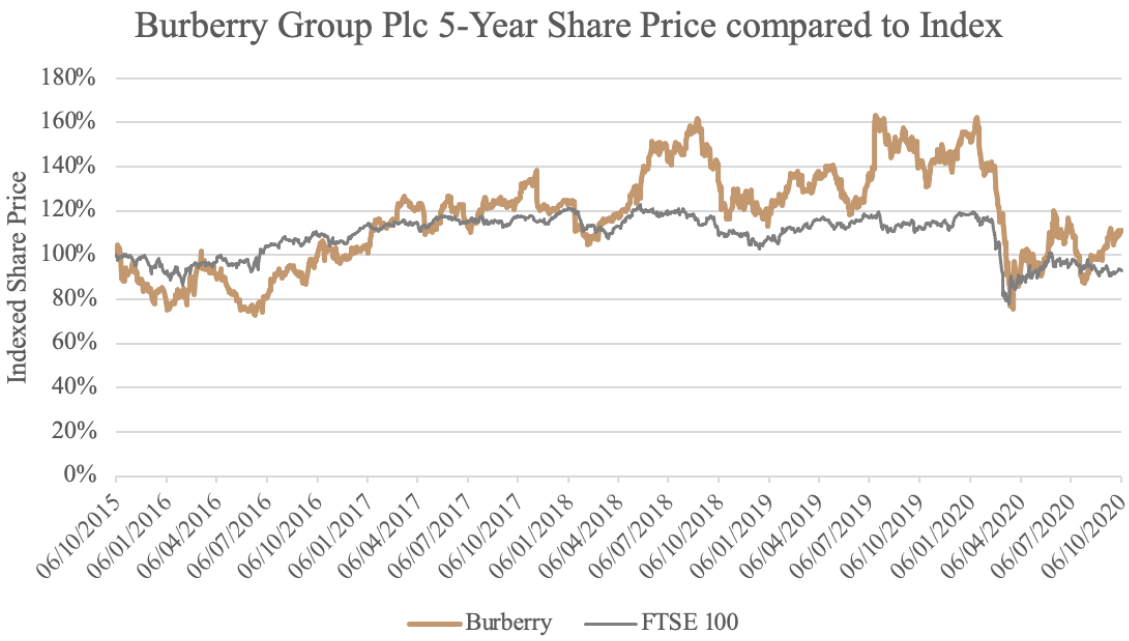
4.2 Evolution of Share Price

On 12th of July 2002, Burberry Group was listed on the London Stock Exchange following an initial public offering. The company first issued 500 million ordinary shares at 230p. As of September 10th, 2009, the company was included in the FTSE 100 index.

Around 99% of the company's shares are in free float. The three major shareholders of the company are BlackRock Inc. (6.62%), Lindell Train Limited (5%) and Massachusetts Financial Services Company (5.10%) (Burberry Group, 2020a).

Since the company was initially listed, its share price has been increasing, showcasing the positive market sentiment around the company. Around March 2020 the share price sharply declined, in conjunction with the overall market, and since then it has not yet reached its Pre-COVID price.

Figure 12: 5-Year Evolution of Burberry's Share Price compared to FTSE-100 Index



4.4 Financial Analysis

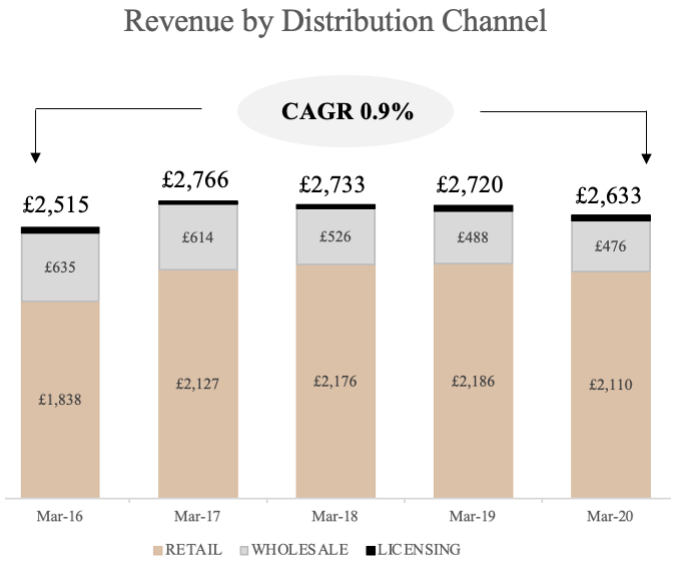
To achieve long-term value creation, the company focuses on three central pillars: revenue growth, operating margin accretion and capital efficiency.

4.4.1 Historical Revenue Analysis

Burberry's revenues presented a CAGR of 0.9% between 2016 and 2020. However, the company's revenues have been exhibiting a decreasing trend.

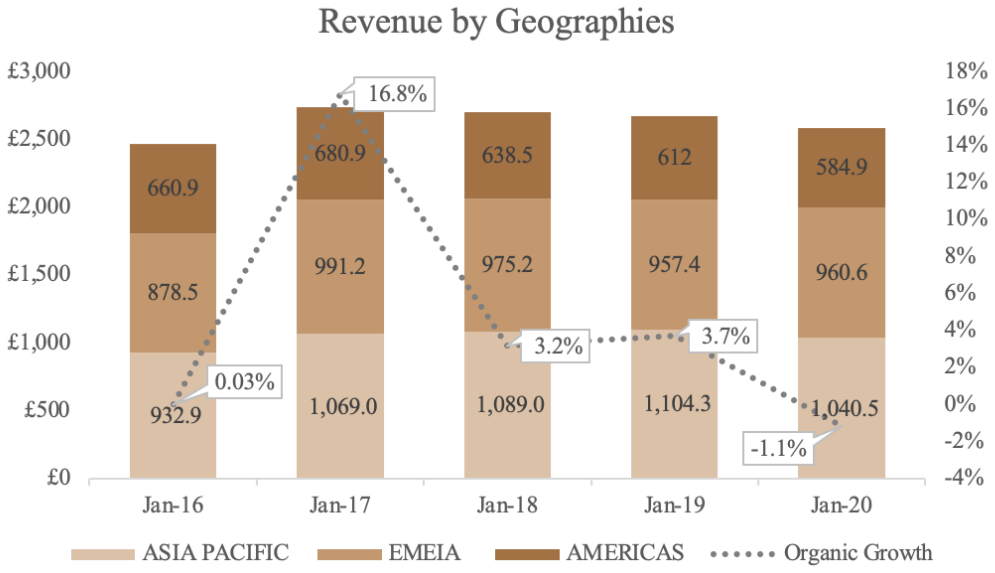
The company distributes its product through three main distribution channels: retailers, wholesalers and licensing. The retailing channel represents the highest proportion of company sales, and it shows an increasing trend throughout the last few years. FY2020 presented a 4% contraction at CER, mainly due to low store productivity in Q1 of 2020. Wholesale revenue has been contracting in the last few years, due to their strategic move (in 2017) to rationalize non-luxury doors which led to a pull-back from department stores.

Figure 13: Revenues by Distribution Channel



In terms of geographical segmentation, Burberry segments its revenues into three main geographical areas: Asia Pacific, EMEIA and Americas.

Figure 14: Revenue by Geographies



The Asian Pacific market is one of the most important for the company as it represents, on average, 40% of Burberry's sales. Overall, this market has been growing for the last five years at a CAGR of 2.2%, and it is expected to continue growing in the future. The contraction of 6% last FY is related to the COVID outbreak. The key markets for the company are: Mainland China, Korea and Japan.

The EMEIA market also accounts for a significant proportion of the company's revenues. It presented a CAGR of 1.9% between 2016 and 2020. The decreasing trend in the past couple of years was mainly due to a decline in Middle East consumption, impacted by disruptions in the macro-environment. Growth in Continental Europe and the UK has been stable at low single-digit percentages. These markets are highly dependent on tourism, therefore a reduction in tourism flow contributed to the decreasing trend. The key markets for the company are mainly in Western Europe: Germany, France, Italy and the UK.

The Americas, mainly represented by the US, presented a CAGR of -2.4%. The strategic program negatively impacted the sales in the US as it was the region with need for the greatest change to achieve luxury positioning, being greatly affected by the pull-back from department stores.

4.4.2 Historical Cost Analysis

In 2020, cost of sales accounted for 33% of total revenues, representing a 1 pp. increase from 2019. Cost of inventories was responsible for approximately 96% of cost of sales.

Selling, General and Administrative expenses remained stable at 48% of revenues. The decrease in expenses in 2020 was due to savings in procurement, as part of the operational excellence program (section 4.1.1).

Figure 15: Cost of Sales

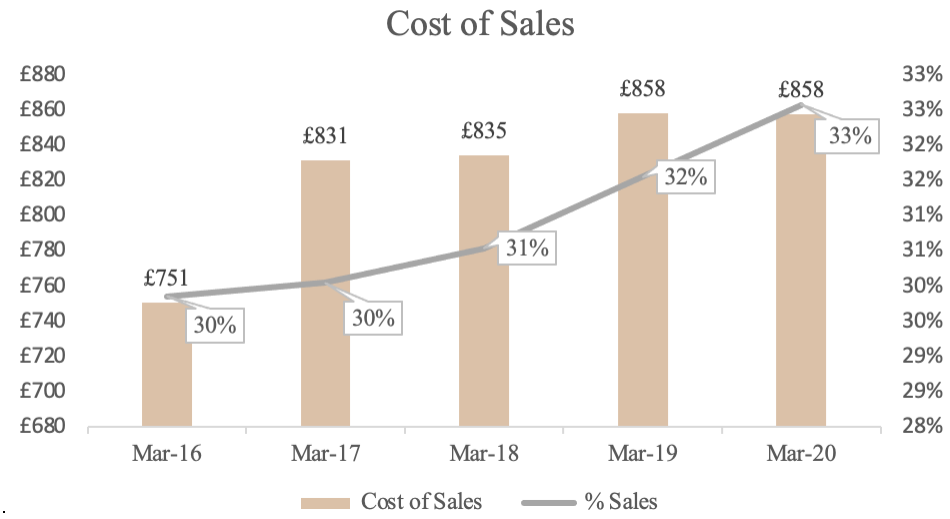
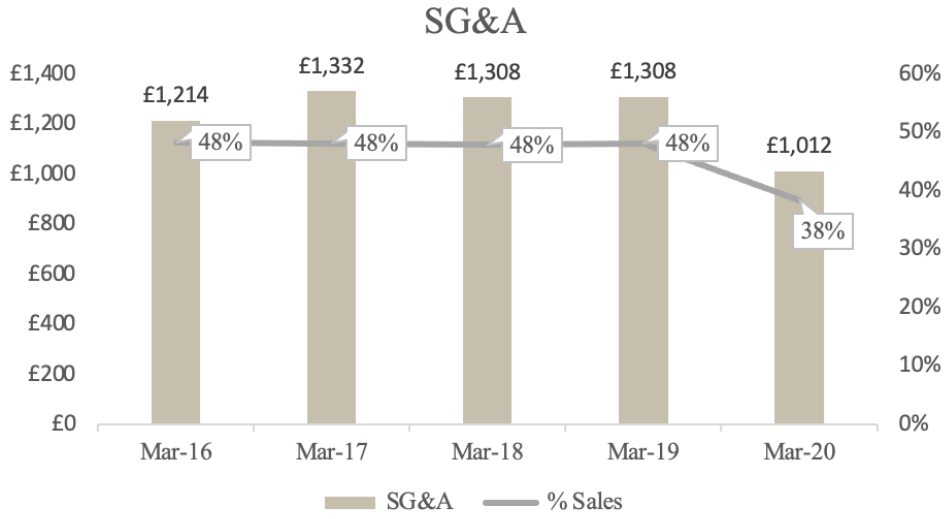


Figure 16: SG&A



4.4.3 Gross Profit, EBITDA, and EBIT

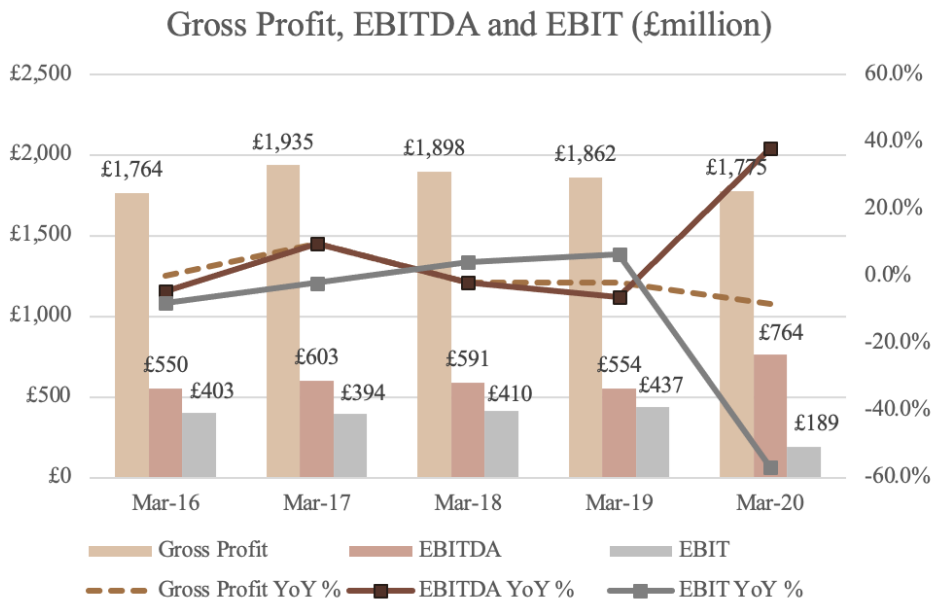
Since 2017, Gross Profit presents a decreasing trend not only due to a reduction in revenues but also increasing COGS. Despite this contraction, Gross Profit margin remained stable at 68%-70% between 2016 and 2020.

EBITDA also shows a decreasing trend, but EBITDA margin remained stable at 20%-22%, between 2016 and 2019. In 2020 there is an increase in EBITDA, mainly due to the implementation of IFRS 16.

EBIT, on the other hand, exhibits an increasing trend because of reductions in Depreciation and Amortization. In 2020, EBIT decreased by 57% because of adjusting items, which accounted

for £244 million in the Income Statement. These include impairments related to COVID-19, such as store and receivables impairments and other operating expenses such as restructuring costs. Adjusting items generally represent one-off non-recurring charges.

Figure 17: Burberry's Historical Results



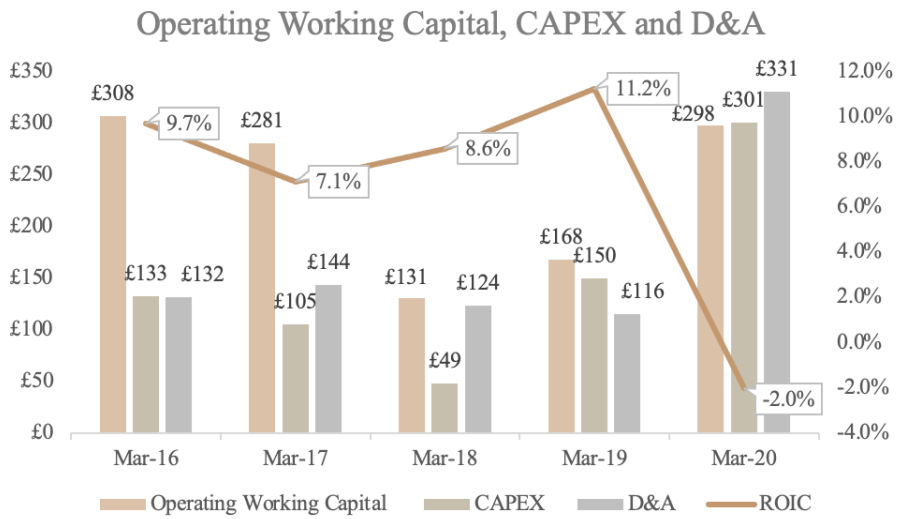
4.4.4 Working Capital and CAPEX

The company's working capital has always been positive in the last five years, and it increased by approximately 80% in 2020. This rise is in accordance with the company's objective to improve operational efficiency.

CAPEX has been increasing since 2017. This is consistent with the company's capital allocation framework, which incentivizes the re-investment in the company. Additionally, its PP&E turnover ratio has also been increasing since 2016, reflecting the company's efficiency in generating revenues through its PP&E investments.

Depreciation and Amortizations remained relatively stable between 2016 and 2019. The increase in depreciation in 2020 was due to depreciation in right-of-use assets, which is a result of the IFRS-16.

Figure 18: Operating Working Capital, Capex and D&A



4.4.5 Capital Structure

The implementation of IFRS-16 significantly increased the company's debt. As of 31st March 2020, the company's book value of debt accounted for 45% of total assets, compared to 1.6% in 2019.

On September 9th of 2020, the company announced it would issue a £300 million Sustainability bond due September of 2025. This will diversify the company's sources of funding by introducing long-term financing. The company does not foresee any additional changes to its capital structure.

5 Valuation Model

5.1 Discounted Cash Flow Valuation

5.1.1 FCFF Projection

For the projection of FCFF, a period of 7 years was considered. The estimation period was divided into three stages. The **1st Stage** consists of 2 years (Mar-2021 and Mar-2022) and takes into consideration the impact and recovery of COVID-19. A period of two years is considered since it is the expected time for Burberry to make a full recovery and reach its pre-COVID levels. This period was estimated taking into consideration the company's guidelines and the overall market perception regarding economies' recovery. The **2nd Stage** represents a declining growth period and consists of three years. This stage reflects the consolidation of the company's position in an industry marked by declining growth. Finally, when the company reaches the **3rd Stage** growth stabilizes, and the company is assumed to enter into a mature state.

Table 1: FCFF Projection

	Historical (£ million)					Forecasted (£m)						
						Stage I		Stage II			Stage III	
FCF	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**	**Mar-26**	**Mar-27**
EBIT	402.90	394.30	410.30	437.20	188.70	273.17	461.31	517.29	541.85	557.67	583.70	609.27
- Taxes (Effective Tax rate: 27.8%)	97.91	106.96	118.34	100.72	52.52	76.03	128.40	143.98	150.82	155.22	162.46	169.58
= Earnings Before Interest after Taxes	304.99	287.34	291.96	336.48	136.18	197.14	332.91	373.31	391.03	402.45	421.23	439.68
+ D&A	147.10	151.50	124.60	115.80	330.80	308.71	334.15	356.79	378.56	403.90	414.88	427.33
- CAPEX	(132.95)	(105.44)	(48.62)	(150.06)	(300.75)	(275.16)	(414.49)	(439.49)	(462.85)	(483.56)	(435.64)	(451.88)
- Increase/(Decrease) in Net Working Capital	(313.90)	(26.60)	(149.90)	37.30	129.30	(116.76)	30.80	(15.49)	10.40	9.24	8.30	8.53
- Increase/(Decrease) in Non-Current Op. Assets/Liabilities	5.70	13.50	(86.70)	0.90	109.50	(82.04)	9.39	3.44	2.84	2.52	2.27	2.33
= Free Cash Flow to the Firm	**633.03**	**346.50**	**604.55**	**264.03**	**(72.57)**	**429.49**	**212.39**	**302.66**	**293.51**	**311.03**	**389.89**	**404.26**
NPV FCF							199.96	268.28	244.95	244.40	288.44	281.58

5.1.1.1 Revenues Estimation[2]

The company announced, in Q1 of 2020, it would develop a localized-approach for the rest of the year, as the virus develops differently across countries and the markets experience different recovery-rates. Therefore, for the projection of revenues in **Stage I**, I forecasted Burberry's main markets individually, taking into consideration the company's strategy for each market and the economies' recovery from the pandemic (Table 2).

For the **ASIAN/PACIFIC** market, two variables were considered, which together explain 78% of the variations in revenue growth. The first one was GDP growth (adjusted for the UK's inflation), which presented a correlation of 86.3% with past YoY sales growth. A weighted GDP growth was calculated, taking into consideration the countries the company is present in (Appendix 6 and 7). The second variable used was growth in Gross Household Disposable Income (Appendix 8). As referred in Chapter 3, the rise in the upper-middle class was a strong driver for the PLG industry growth, especially in China. As so, this variable is considered to be an important driver for Burberry's revenue growth, presenting a correlation of 82.2% with past YoY sales growth. In addition, a firm factor was added to reflect the company's expectations regarding future growth, which took into consideration the opening of new store concepts in China and a rise in new younger customers to the brand. The luxury demand has rebounded quickly in these markets, especially in China and Korea, driven by the robust domestic economy and the repatriation of spend. Furthermore, it also accounted for the positive expectations regarding the COVID development and the rapid recovery the region experienced in the beginning of the year, which is expected to continue for the remaining of 2020 and 2021.

For the **EMEIA** market, not only the GDP growth rate and the growth on Gross Disposable income were considered, but also the weighted growth on Travel and Tourism Spending (Appendix 9). The last variable was deemed necessary as EMEIA is the region most dependent on the travelling consumer, representing around half of the company's business in that area. As in ASIA/PACIFIC, a firm factor was added. The company expects the EMEIA market to have the weakest performance, as it was impacted by the most prolonged period of store closures, with the majority of the stores opening in late May and the UK only on 15th of June. Burberry's sales in EMEIA declined around 50% in H1 of 2020. As the second wave hits and restricting measures are being applied again, this was considered to be the best guest of what is expected for the full year.

[2] For more details on Revenue Estimation for Stage I, II and III please see Appendixes 10-13

For the **AMERICAS** market (mainly represented by the US) only the GDP growth rate was considered as past sales presented a weak correlation with growth on Gross Disposable Income. Furthermore, the market is 90% local, therefore it is not highly impacted by tourism flows. As in the other markets, a firm factor was added. Sales in H1 of 2020 were down by 37%, however, the market showed a considerate recovery in the last few months, which is a strong indicator of brand heat and perception in America. Additionally, the US has experienced an increase in luxury demand, supported by a strong environment and a shift in luxury spending from experiences to goods. Overall, the company expects a substantial increase in growth in 2021, which I consider reasonable as Burberry has successfully generated brand heat, despite the difficult times, and plans to continue to deliver locally relevant content.

In **Stage II,** Burberry is expected to converge to the mature state, as it is assumed the company has already fully recovered from the pandemic and has returned to its normal levels. In this stage, sales were forecasted as a whole based on three macroeconomic variables: the weighted GDP growth of the countries the company operates in, the growth on Gross Disposable Income and growth of the PLG industry. Together these variables explain 97% of past variations in revenue. The weight for each variable was determined based on the R^2 of each variable's individual regression, i.e., the higher the R^2, the higher the weight. At this stage, a firm factor is also added to represent the company momentum, this factor gradually decreases throughout the three years, reaching zero in **Stage III.** In this final stage, the company growth has stabilized, and it is ready to enter in steady-state.

The percentage of revenues from **Licensing** has been stable for the past couple of years. Since Management did not announce any changes, it is assumed licenses will remain stable as a percentage of revenues.

Table 2: Revenues Estimation

	Historical (£m)					Forecasted (£m)						
						Stage I		Stage II			Stage III	
	Mar-16	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**	**Mar-26**	**Mar-27**
Revenues	2,514.70	2,766.00	2,732.80	2,720.20	2,633.10	2,214.04	2,723.86	2,910.71	3,064.99	3,202.08	3,325.29	3,451.89
YoY Growth (%)	-0.3%	10.0%	-1.2%	-0.5%	-3.2%	-15.9%	22.8%	6.9%	5.3%	4.5%	3.8%	3.8%
Revenues by Geographical Segment (Retail/Wholesale)												
ASIA PACIFIC	932.9	1,069.0	1,089.0	1,104.3	1,040.5	1,112.94	1,262.46	1,312.73	1,346.76	1,344.04	1,363.07	1,414.97
% of Total	37%	39%	40%	41%	40%	50%	46%	45%	45%	43%	42%	42%
YoY Growth (%)	*-0.6%*	*14.6%*	*1.9%*	*1.4%*	*-5.8%*	*7.0%*	*13.4%*	*3.9%*	*2.6%*	*-0.2%*	*1.4%*	*3.8%*
EMEIA	878.5	991.2	975.2	957.4	960.6	598.78	869.99	940.16	979.19	1,054.46	1,127.72	1,170.66
% of Total	35%	36%	36%	35%	36%	27%	32%	32%	33%	34%	35%	35%
YoY Growth (%)	*1.1%*	*12.8%*	*-1.6%*	*-1.8%*	*0.3%*	*-37.5%*	*44.6%*	*8.2%*	*4.2%*	*7.7%*	*6.9%*	*3.8%*
AMERICAS	660.9	680.9	638.5	612	584.9	463.53	543.95	608.34	635.72	695.63	722.40	749.90
% of Total	26%	25%	23%	22%	22%	21%	20%	21%	21%	22%	22%	22%
YoY Growth (%)	*1.9%*	*3.0%*	*-6.2%*	*-4.2%*	*-4.4%*	*-20.8%*	*17.4%*	*11.8%*	*4.5%*	*9.4%*	*3.8%*	*3.8%*
Revenues by Distribution Channel												
RETAIL	1,837.7	2,127.2	2,176.3	2,185.8	2,110.2	1,785.43	2,210.17	2,379.25	2,462.77	2,571.62	2,671.93	2,772.25
% of Total	73.1%	76.9%	79.6%	80.4%	80.1%	80.6%	81.1%	81.7%	81.7%	81.7%	81.7%	81.7%
YoY Growth (%)	*1.7%*	*15.8%*	*2.3%*	*0.4%*	*-3.5%*	*-15.3%*	*23.6%*	*7.7%*	*3.5%*	*4.4%*	*3.9%*	*3.8%*
WHOLESALE	634.6	613.9	526.4	487.9	475.8	389.01	464.96	482.30	499.23	521.56	541.63	562.25
% of Total	25.2%	22.2%	19.3%	17.9%	18.1%	17.6%	17.1%	16.6%	16.6%	16.6%	16.6%	16.6%
YoY Growth (%)	*-2.1%*	*-3.3%*	*-14.3%*	*-7.3%*	*-2.5%*	*-18.2%*	*19.3%*	*3.7%*	*3.5%*	*4.5%*	*3.8%*	*3.8%*
LICENSING	44.7	27.1	31.9	48.3	48.5	38.80	47.46	49.48	52.10	54.44	56.53	58.68
% of Total	1.8%	1.0%	1.2%	1.8%	1.8%	1.8%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
YoY Growth (%)	*-36.2%*	*-39.4%*	*17.7%*	*51.4%*	*0.4%*	*-20.0%*	*22.3%*	*4.5%*	*5.3%*	*4.5%*	*3.8%*	*3.8%*

5.1.1.2 COGS Estimation

COGS were estimated as a percentage of revenues, as they are directly correlated with revenue growth. COGS/Revenue has been fairly stable over the past few years, therefore, it was assumed it would remain at the (-3Y) average level for the entire forecasting period.

5.1.1.3 SG&A & Other Operating Expenses Estimation

The company's cost-efficiency program promises to achieve simplification and efficiency by optimizing back-office functions and delivering cost savings in procurement (Burberry Group, 2020a). FY2020 has already seen a decrease in SG&A/Revenues, from 48% to 38%, and it is expected to remain at that level for the forecasting period. However, for FY2021, an increase was predicted because of COVID-19. According to the last Interim Results, management announced an increase in OPEX/Revenues, mainly due to an increase in spending in advertising and digital channels, which have helped the company navigate through the challenging environment. Therefore, I will assume SG&A as a % of sales increases by 7 pp. to the past three years average.

Regarding Other Operating Expenses, FY2020 was an unprecedented year as they represented 7% of revenues. This increase was necessary as the company was preparing for the impact of COVID in FY2021. Following management guidelines, it is expected the company will incur in restructuring charges of £45m in FY2021 and FY2022, which I assumed would be equally allocated across the two years. Additionally, because of COVID, there was a reduction in rent payments in FY2021. The eligible rent forgiveness amounts will be treated as negative variable lease payments (Burberry Group, 2020b), leading to a credit of £26.3m. Reversal of impairments of £32.2m was also considered in the half-year results. For model simplification, I will assume the impact for the remaining of the year will be £nil. In FY2022 only the restructuring charge was considered. For the remaining of the forecasting period, these charges are assumed to be zero as they are unpredictable and are believed to be close to zero having a low impact in the overall results.

Table 3: COGS and SG&A Estimation

	Historical (£m)					Forecasted (£m)						
						Stage I		Stage II			Stage III	
	Mar-16	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**	**Mar-26**	**Mar-27**
Cost of Sales	750.60	831.30	834.60	858.30	857.70	698.65	859.53	918.49	967.18	1,010.43	1,049.32	1,089.26
YoY %	*-0.8%*	*10.8%*	*0.4%*	*2.8%*	*7.9%*	*-18.5%*	*23.0%*	*6.9%*	*5.3%*	*4.5%*	*3.8%*	*3.8%*
% Sales	*30%*	*30%*	*31%*	*32%*	*33%*	*32%*	*32%*	*32%*	*32%*	*32%*	*32%*	*32%*
SG&A	1,214.10	1,332.00	1,307.60	1,308.00	1,011.50	991.51	1,046.36	1,118.14	1,177.41	1,230.07	1,277.41	1,326.04
YoY %	*-0.8%*	*10.8%*	*0.4%*	*2.8%*	*7.9%*	*-2.0%*	*5.5%*	*6.9%*	*5.3%*	*4.5%*	*3.8%*	*3.8%*
% Sales	*48%*	*48%*	*48%*	*48%*	*38%*	*45%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*

5.1.1.4 CAPEX and D&A

Since the 2017 strategic change, one of the company top priorities has been to reinvest into the business. Taking this into consideration, capital expenditures were forecasted as a % of sales to better predict the actual needs of the business, and to reflect the past trends of the company reinvestment strategy. For the projection, CAPEX was sub-divided into PP&E and Intangibles CAPEX, and Lease CAPEX.

PP&E and Intangibles CAPEX has been relatively stable over the past few years, ranging between 4%-6% as a percentage of revenues (excluding 2018). According to management guidelines, and in response to COVID-19, CAPEX is being prioritized, and it is expected to decrease in FY2021. Additionally, the company announced in the last Interim Results a capital expenditure of £46m in respect to PP&E and Intangibles. The investment for the remaining of the year is assumed to be along the same lines, therefore a 4% CAPEX/Revenues is considered reasonable. For the remaining of the forecasting period, CAPEX will drift to the average historical level (excluding 2018).

Regarding Lease Capex, for FY2021 the company expects a neutral impact in store openings and closings, therefore it is anticipated a Lease CAPEX-to-Amortization ratio close to 1, arriving at a 9% CAPEX/Sales ratio. Between FY2022 and FY2025, it is expected an increase in CAPEX, as the company continues to expand its position across the three markets. As we reach Stage III, the Lease CAPEX level is assumed to stabilize at 8%.

Depreciation of PP&E was computed as a percentage of Gross PP&E, and the average of the last three years (-3Y) was considered for forecasting purposes. The same approach was used for amortization of Intangible Assets.

Amortization of Right-of-Use Assets was computed as a percentage of Right-of-Use Assets. Since IFRS 16 was first applied in FY2020, there was not enough historical information available on amortization levels. Therefore the 2020 amortization percentage was considered to be the best guess for the rest of the forecasting period.

To make sure values were consistent, PP&E, Intangibles and Right-of-Use Assets were computed using the following formulas (Koller et al., 2015).

Formula 15: PP&E

$$PP\&E_1 = PP\&E_0 + CAPEX - Depreciation$$

Formula 16: Intangible Assets

$$Intangible\ Assets_1 = Intangible\ Assets_0 + CAPEX - Amortization$$

Formula 17: Right-of-Use Assets

$$Right - of - Use\ Assets_1 = Right - of - Use\ Assets_0 + CAPEX - Amortization$$

Table 4: CAPEX Map

	Historical (£m)					Forecasted (£m)							
						Stage I		Stage II			Stage III		
	Mar-16	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**	**Mar-26**	**Mar-27**	Average (-3Y)
Depreciation of PP&E	111.90	121.30	99.10	87.20	83.30	88.24	91.43	93.75	97.40	102.61	106.21	109.59	
% of PP&E	*10.4%*	*10.3%*	*9.0%*	*9.0%*	*8.0%*	*8.7%*	*8.7%*	*8.7%*	*8.7%*	*8.7%*	*8.7%*	*8.7%*	8.7%
Amortization of Intangibles	35.20	30.20	25.50	28.60	26.40	31.35	37.96	42.32	44.57	49.24	54.03	59.18	
% of IA	*10.6%*	*8.1%*	*8.8%*	*8.7%*	*6.7%*	*8.1%*	*8.1%*	*8.1%*	*8.1%*	*8.1%*	*8.1%*	*8.1%*	8.1%
Amortization of Right-of-Use Assets	-	-	-	-	221.10	189.12	204.75	220.72	236.58	252.05	254.64	258.55	
% of RoU Assets					*18.5%*	*18.5%*	*18.5%*	*18.5%*	*18.5%*	*18.5%*	*18.5%*	*18.5%*	
Total D&A	**147.10**	**151.50**	**124.60**	**115.80**	**330.80**	**308.71**	**334.15**	**356.79**	**378.56**	**403.90**	**414.88**	**427.33**	
CAPEX Map													
PP&E and IA CAPEX	132.90	105.40	48.60	150.00	123.70	86.65	140.86	148.42	156.35	163.35	169.62	176.08	
% of Sales	*5.3%*	*3.8%*	*1.8%*	*5.5%*	*4.7%*	*4.0%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	
Lease CAPEX	-	-	-	-	177	188.52	273.63	291.07	306.50	320.21	266.02	275.81	
% of Sales					*6.7%*	*8.5%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*8.0%*	*8.0%*	
Total CAPEX	**132.90**	**105.40**	**48.60**	**150.00**	**300.70**	**275.16**	**414.49**	**439.49**	**462.85**	**483.56**	**435.64**	**451.88**	
% of Sales	***5.3%***	***3.8%***	***1.8%***	***5.5%***	***11.4%***	***12.5%***	***15.1%***	***15.1%***	***15.1%***	***15.1%***	***13.1%***	***13.1%***	
Gross Values													
PP&E	1078.20	1176.30	1106.00	968.60	1040.00	1019.24	1056.13	1082.89	1125.09	1185.25	1226.84	1265.86	
% of Sales	*42.9%*	*42.5%*	*40.5%*	*35.6%*	*39.5%*	*46.0%*	*38.8%*	*37.2%*	*36.7%*	*37.0%*	*36.9%*	*36.7%*	
Intangible Assets	333.40	373.60	289.80	327.80	392.30	387.78	408.58	364.36	383.67	400.83	416.26	432.11	
% of Sales	*13.3%*	*13.5%*	*10.6%*	*12.1%*	*14.9%*	*17.5%*	*15.0%*	*12.5%*	*12.5%*	*12.5%*	*12.5%*	*12.5%*	
Right-of-Use Assets	-	-	-	-	1195.40	1022.52	1107.02	1193.34	1279.12	1362.74	1376.71	1397.88	
% of Sales					*45.4%*	*46.2%*	*40.6%*	*41.0%*	*41.7%*	*42.6%*	*41.4%*	*40.5%*	

5.1.1.5 Net Working Capital

Operating working capital is defined as the difference between current operating assets and current operating liabilities.

Inventories were forecasted using the (-3Y) average of Inventory Turnover, except for FY2021 which took into account the Interim results shared in November 2020. For the first half of FY2021 inventory turnover decreased to 1.84, and it was assumed the rest of the year would reflect a similar inventory management.

Trade Receivables and Trade Payables were projected using the (-3Y) average of Days' Receivables and Days' Payables. Other Current Assets and Other Current Liabilities were computed as a percentage of sales, using the (-3Y) average data.

Finally, in Current Tax Receivables and Income tax Liabilities, we notice FY20 is an outlier when compared to the prior four years. This difference was assigned to COVID, therefore for Stage I the average of the (-3Y) was considered. For the rest of the forecasting period, the average of the three years before FY2020 was employed.

Changes in operational non-current assets and liabilities were also taken into consideration as they affect the FCFF. All variables were forecasted as the (-3Y) average of % of sales or % of cost of sales.

Table 5: Working Capital Map

	Historical (£m)					Forecasted (£m)								
						Stage I		Stage II			Stage III			
(£ million)	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**	**Mar-26**	**Mar-27**	(-3Y) Average	Average (17-19)
+Inventories	486.7	505.3	411.8	465.1	450.5	390.11	456.74	488.07	513.94	536.92	557.58	578.81		
YoY Growth	*11.5%*	*3.8%*	*-18.5%*	*12.9%*	*-3.1%*	*-17.6%*	*30.8%*	*6.9%*	*5.3%*	*4.5%*	*3.8%*	*3.8%*		
Inventories Turnover	*1.5*	*1.7*	*1.8*	*2.0*	*2.0*	*1.8*	*1.9*	*1.9*	*1.9*	*1.9*	*1.9*	*1.9*	1.9	
+Trade Receivables	197.9	191.8	117	119.7	107	94.06	115.72	123.66	130.22	136.04	141.27	146.65		
Days' Receivables	*28.3*	*25.0*	*15.4*	*15.8*	*14.6*	*15.3*	*15.3*	*15.3*	*15.3*	*15.3*	*15.3*	*15.3*	15.3	
+Current Tax Receivables	3	9.2	6.7	14.9	50.4	19.98	24.58	10.92	11.50	12.01	12.48	12.95		
% of Revenues	*0.1%*	*0.3%*	*0.2%*	*0.5%*	*1.9%*	*0.9%*	*0.9%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*	*0.4%*	0.9%	0.4%
+Other Current Assets	87.5	83.8	89.3	131.4	145.1	100.4	123.6	132.0	139.0	145.3	150.8	156.6		
% of Sales	*3.5%*	*3.0%*	*3.3%*	*4.8%*	*5.5%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*	4.5%	
-Trade Payables	167.2	172.3	153.2	221.6	197.3	156.67	192.75	205.97	216.89	226.59	235.31	244.27		
Days' Payables	*80.2*	*74.6*	*66.1*	*92.9*	*76.7*	*78.6*	*78.6*	*78.6*	*78.6*	*78.6*	*78.6*	*78.6*	78.6	
-Income Tax liabilities	80.4	50.1	32.9	37.1	7.9	21.16	26.04	42.49	44.74	46.74	48.54	50.39		
% of Revenues	*3.2%*	*1.8%*	*1.2%*	*1.4%*	*0.3%*	*1.0%*	*1.0%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	1.0%	1.5%
-Other Current Liabilities	220	286.8	307.7	304.1	250.2	235.73	290.01	309.90	326.33	340.92	354.04	367.52		
% of Revenues	*8.7%*	*10.4%*	*11.3%*	*11.2%*	*9.5%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	*10.6%*	10.6%	
Operating Working Capital	307.5	280.9	131.0	168.3	297.6	191.0	211.8	196.3	206.7	216.0	224.3	232.8		
Changes in Net Working Capital	(313.90)	(26.6)	(149.9)	37.3	129.3	(106.6)	20.8	(15.5)	10.4	9.2	8.3	8.5		

Table 6: Non-Current Operating Assets

Non-Current Operating Assets	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Mar-26	Mar-27	(-3Y) Average
+ Deferred Tax Assets	134.40	125.00	115.50	123.10	171.50	112.66	138.60	148.11	155.96	162.93	169.20	175.64	
% of Sales	5.3%	4.5%	4.2%	4.5%	6.5%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
+ Non-Current Receivables	66.50	76.40	69.20	70.10	53.70	52.76	64.91	69.36	73.04	76.30	79.24	82.25	
% of Sales	2.6%	2.8%	2.5%	2.6%	2.0%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Non-Current Operating Liabilities													
- Deferred Tax Liabilities	0.60	0.40	4.20	3.40	0.10	2.08	2.56	2.74	2.89	3.02	3.13	3.25	
% of Sales	0.02%	0.01%	0.2%	0.1%	0.004%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
- Non-Current Payables	114.70	101.90	168.10	176.50	102.30	123.83	152.34	162.79	171.42	179.09	185.98	193.06	
% of Cost of Sales	15.3%	12.3%	20.1%	20.6%	11.0%	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%
Changes in Non-Current Assets/Liabilities	(1.9)	13.5	(86.7)	0.9	109.5	(83.3)	9.1	3.3	2.8	2.4	2.2	2.3	

5.1.2 Burberry's Discount Rate

5.1.2.1 WACC

WACC is a critical component of the DCF Model. The discount rate computation followed formula 14, presented in Chapter 2, arriving at a WACC of 6.13%. The different components will be discussed below.

Table 7: WACC Computation

Cost of Equity	7.47%
E/V	80.79%
Cost of Debt	0.94%
D/V	19.21%
WACC	**6.21%**

5.1.2.1.1 Cost of Equity

Cost of equity was computed through the CAPM, following formula 11 presented in Chapter 2.

Table 8: Cost of Equity Computation

Risk-free	0.23%
Beta	1.24
Beta adjusted by Blume	1.16
ERP (Damodaran)	6.23%
Cost of equity	**7.47%**

As a proxy for the risk-free rate, I used the 10-year UK Government Bond Yield as of 30th September 2020.

The 5Y Beta was computed by regressing the company's 5Y weekly returns against the MSCI World Index returns, which was considered as a proxy for the market (Appendix 14). The levered beta was then adjusted using Blume's equation (Formula 13).

The Equity Risk Premium was computed as a weighted average of the ERP of Burberry main markets (Appendix 15). The ERP of the different countries were extracted from Damodaran database. To compute the final ERP for the company, the weights from Appendix 6 were applied.

5.1.2.1.2 Market Value of Equity

The Market value of Equity is computed by multiplying the closing share price on 30th September 2020 (£15.54) by the number of shares outstanding (404.75m).

5.1.2.1.3 Cost of Debt

As mentioned before, Burberry issued its first Bond in September 2020. As the company does not have any other issued bonds, the YTM on Burberry's Sustainability bond was considered as the cost of debt. The after-tax cost of debt was computed using the UK's effective tax rate of 27.8% (FY2020).

Table 9: Burberry's Long-term Bond

RIC	Rating	Coupon	Issue Date	Maturity Date	Currency	Amount Issued	YTM
GB223179096=	Aa2	1.125%	21-Sep-20	21-Sep-25	Great Britain Pound	£300,000,000	1.301%

5.1.2.1.4 Market Value of Debt

Burberry's Debt is approximately 80% long-term and 20% short-term. Current debt is composed of the current portion of Leases and Bank Overdrafts. In this portion of the debt, market value was assumed to be equal to book value.

Long-term debt is composed of Burberry's long-term bond and by the non-current portion of Leases. Despite the 5-year maturity of Burberry's bond, it was assumed that the company would remain issuing LT Bonds, as the management expressed its interest in diversifying the company's forms of financing. To compute the market value of Non-Current Leases, the book value was discounted at the cost of debt.

For the long-term, it is not expected any significant changes to the company's level of debt.

5.1.3 Burberry's Long-Term Growth Rate

Burberry's long-term growth rate was computed as a weighted average of Analysts' expectations on Burberry long-term growth, the long-term average of weighted GDP growth and long-term UK inflation rate.

Following Thomson Reuters data, analysts expect the company to grow, on average, at a rate of 2% per year. To this component, it was given a weight of 60% as it was considered the best proxy on what it is expected of the company for the future.

The second component was calculated as an average of weighted GDP growth and LT inflation rate for the UK, to which it was given a weight of 40%. The company cannot grow at a rate higher than the nominal GDP growth rate and it needs to grow, at least, at the inflation rate. Therefore, an average of these two components was considered as a good proxy for LT growth rate of Burberry, as the real rate should be within these two values. Using the same approach employed in Revenue estimation, the average GDP growth rate for the next 60 years was computed applying the weights from Appendix 6. Estimates for the GDP growth rate and inflation rate were retrieved from the OECD database (Appendix 16).

As the company's long-term growth is a component difficult to predict, it will be stressed in the sensitivity analysis.

Table 10: LT Growth Rate

LT UK Inflation Rate	1.94%
Weighted World GDP Growth Rate	3.78%
Analysts Estimates (Thomson Reuters)	2.01%
LT Growth Rate	**2.35%**

5.1.4 Terminal Value

The terminal value was computed through the Perpetuity Growth Method, following Formula 4. The terminal value FCFF was calculated by multiplying the FCFF from the last forecasted year by Burberry's LT growth rate. The Perpetuity formula was then applied, and the TV was discounted by six years to arrive at a valuation on the 31st March 2021.

Additionally, the terminal value was also computed following the Exit Multiple approach to check if the assumptions made were in line with the market benchmark (Rosenbaum & Pearl, 2013).

5.1.5 DCF Price Estimation

The DCF valuation was made to provide a price estimation on the 31st of March 2021. Enterprise value was computed by adding the sum of the discounted FCFF, the Terminal Value and the Value of non-operating assets. To arrive at Burberry's Equity Value, MV of debt, retirement benefit obligations and non-controlling interest of the firm were deducted. For Burberry, non-operating assets include only Cash & Cash Equivalents. It was assumed all cash is excess cash as the company does not present any guidelines regarding operating cash. In the end, a price of £21.31 was achieved.

Table 11: Price Estimation

(£ million)	Perpetuity Growth Method	Exit Multiple Method
Sum of NPV FCFF (FY22E-FY27E)	1,527.62	1,527.62
NPV TV	7,460.77	8,331.96
(+) Cash & Cash Equivalents (as of 30th September 2020)	1,138.00	1,138.00
Enterprise Value	8,988.39	9,859.57
(-) Debt	1,495.12	1495.63
(-) Preferred Dividends	-	-
(-) Retirement Benefit Obligations	1.90	1.90
(-) Non-Controlling Interest	4.60	4.60
Equity Value	8,624.77	9,495.44
Price	**£21.31**	**£23.46**

Burberry's Balance Sheet and Income Statement were also forecasted and can be found in Appendix 4 and 5.

5.1.6 Alternative Scenarios Analysis[3]

COVID-19 pandemic has brought great uncertainty to companies' valuations. The external environment is volatile, and companies and economies are dependent on the development of a vaccine.

To account for this uncertainty, a scenario analysis was conducted to understand how different assumptions on revenue growth and costs can affect Burberry's share price. An Optimistic and Pessimistic scenario was created to reflect what would happen if a vaccine comes earlier than expected or if the opposite scenario occurs. The scenario analysis is limited to the extent of the COVID-19 pandemic, which, in the worst-case scenario, was assumed to be until FY2023.

In the **Optimistic Scenario,** it was assumed the second wave being experienced around the world is less severe than the first wave, as there is greater confidence in preventive measures and overall market sentiment is better. The optimistic scenario also takes into consideration an earlier release of a vaccine, which is expected to positively impact the first half of FY2022.

[3] For more details check Appendix 17-18

Following these assumptions, it is expected the impact of sales in H2 of FY2021 to be less severe than initially predicted in the Baseline Model (BM), resulting in a 9% decrease in sales from FY2020 to FY2021 (vs. -15.9% in BM). This lower decrease in sales derives from the adjustment of the Firm Factor in revenue estimation, across the three geographies. In Asia Pacific, an increase of 5 pp. in revenue growth is considered reasonable, as China and Korea are already experiencing a stable macroeconomic environment with a low rise in active cases. The increase is justified by an increase in company momentum in China and Korea. In EMEIA an increase of 20 pp. is considered as a significant recovery in H2, with Burberry expanding its presence in digital channels compensating for lockdown measures in main European markets. It is also presumed an increase in market sentiment with an earlier release of a vaccine. In the Americas the same increase of 20 pp. was considered, driven by the same factors as in the EMEIA market.

For FY2022 it is expected revenue growth of 27.4% (vs 22.8% in BM), driven by the release of vaccine and post-COVID recovering economies. As sentiment lifts, it is expected an increase in the consumption of discretionary goods. Revenue growth was adjusted by the Firm Factor, assuming a lower impact than in the previous FY as the BM already takes into consideration a possible release of a vaccine during 2021.

It was also considered a decrease in SG&A expenses for FY2021, which were forecasted as 40% of total revenues. Additionally, it was also presumed an increase in CAPEX in FY2022 as the company expands and consolidates its position in important markets, such as America and Asia. With these assumptions, a price of £22.46 is reached.

In the **Pessimistic Scenario,** it was assumed the second wave hit as hard as the first one, especially in Europe and in the US as governments start to apply lockdown measures again. It was also considered a delay in the release of vaccine to the end of 2021, further impacting Burberry's revenues.

Following these assumptions, revenue growth was estimated at -22.8 % for FY2021 (vs -15.9% in BM). The same approach was considered as in the OS, with the Firm Factor being adjusted down by the same percentage. For FY2022 revenue growth is expected at 18.7% (vs. 22.8% in BM).

In this scenario, by FY2023 revenues are still 5% below pre-COVID levels (FY2019). SG&A expenses were also forecasted to increase in Stage I, and CAPEX is expected to decrease in the

next two years, as the company protects its financial position. With these assumptions, a price of £17.78 is achieved.

5.1.7 Sensitivity Analysis

A Sensitivity Analysis was conducted for the Perpetuity Growth Model to test the WACC and the LT growth Rate, which together can have a significant impact on Price. WACC was altered by ± 0.1 and LT growth rate was modified by changing the weights of the different components. Overall, with these assumptions, the price can range between £18.62 and £24.85.

Table 12: Sensitivity Analysis

Price per Share

		WACC						
		5.91%	6.01%	6.11%	6.21%	6.31%	6.41%	6.51%
Long-term Growth Rate	2.09%	21.66	21.197	20.63	20.09	19.57	19.08	18.62
	2.17%	22.25	21.62	21.03	20.47	19.94	19.43	18.94
	2.26%	22.72	22.07	21.45	20.87	20.31	19.78	19.28
	2.35%	23.25	22.57	21.92	**21.31**	20.73	20.18	19.66
	2.43%	23.73	23.02	22.35	21.72	21.12	20.55	20.00
	2.52%	24.28	23.53	22.83	22.17	21.55	20.95	20.39
	2.60%	24.85	24.07	23.34	22.65	22.00	21.38	20.79

5.2 Relative Valuation

A Relative Valuation was conducted to include a market benchmark in the Valuation Model. This approach will provide further insights into the company and its position in the market.

5.2.1 Peer Group

The Peer Group was selected from a list of 65 companies retrieved from Thomson Reuters, which included companies within the same Industry as Burberry and across the different countries the company is present in. The Peer Group was then narrowed to a group of 10 companies, based on four different factors: Size, Profitability, Growth Prospects and Leverage. The companies selected presented similar characteristics to Burberry across these four departments. The selected peer group can be found in Appendix 19.

5.2.2 Multiples Valuation

The multiples chosen to conduct the Relative Valuation were EV/EBITDA and P/E, as stated under Chapter 2. I decided to conduct an analysis based on forward multiples as empirical studies show they provide a more accurate estimation (Koller et al., 2015). Multiples were retrieved from the Thomson Reuters database for FY2020 and FY 2021 (Table 13). The median of the Peer Group multiples will be considered for the analysis as it generally represents the typical firm in the group, and it will remove any outlier that might exist (Damodaran, 2013).

Under the EV/EBITDA multiple, a price of £21.57 is reached. The Equity Value was estimated by adding Cash & Cash Equivalents and deducting Debt and Non-Controlling Interest to the Enterprise Value. Under the P/E multiple, the standardized value of EPS was considered to remove the effect of non-recurring items, arriving at an average price of £15.66.

An average of these two multiples was considered, arriving at a fair value per share of £18.62.

Table 13: Relative Valuation

Identifier (RIC)	Company Name	EV/EBITDA Multiple		P/E Multiple	
		FY 2020	FY 2021E	FY 2020	FY 2021E
BRBY.L	**Burberry Group PLC**	**13.58x**	**16.07x**	**44.55x**	**34.35x**
CPRI.N	Capri Holdings Ltd	11.83x	14.03x	9.29x	31.86x
BOSSn.DE	Hugo Boss AG	4.2x	10.88x	14.56x	-12.99x
PRTP.PA	Kering SA	14x	20.02x	33.89x	37.63x
LB.N	L Brands Inc	8.33x	8.07x	17.39x	16.92x
LEVI.N	Levi Strauss & Co	10.74x	25.64x	17.58x	166.1x
LVMH.PA	LVMH Moet Hennessy Louis Vuitton SE	19.55x	24.65x	29.1x	55.97x
MONC.MI	Moncler SpA	18.91x	22.21x	28.82x	51.45x
PNDORA.CO	Pandora A/S	11.25x	14.7x	9.64x	29.44x
RL.N	Ralph Lauren Corp	6.54x	14.5x	20.27x	61.26x
TIF.N	Tiffany & Co	16.19x	25.45x	30.12x	60.69x
	Mean	12.15	18.02	21.07	56.81
	Weighted Mean	17.38	22.79	28.92	51.98
	Median	**11.54**	**17.36**	**18.93**	**51.45**
	Min	4.2	8.07	9.29	-12.99
	Max	19.55	25.64	33.89	166.10
	Price	**£20.88**	**£21.57**	**£14.89**	**£15.66**

Relative Valuation	EV/EBITDA	P/E
FY2021E	£21.57	£15.66
Average		**£18.62**

5.3 Target Price

Burberry's Target Price will be computed as an average between the price estimated under the DCF Model, and the price arrived in the Relative Valuation, which is presented in summary in Table 14. A price of £19.96 is recommended, which delivers a potential upside of 10%, supporting a **HOLD Recommendation.**

Table 14: Target Price

	Price Estimate
DCF Model (50%)	£21.31
Relative Valuation (50%)	£18.62
Target Price	**£19.96**
Target Price (GBp)	**1,996.25**
Burberry Price (as of 11th Dec 2020)	1815.00 GBp

6 Comparison with Credit Suisse Valuation

Burberry is followed by 19 analysts among the top Investment Banks in the world. For this dissertation, the Equity Research Report chosen was from Credit Suisse, presented by the analyst Guillaume Gauvillé. This analyst has a four-star rating in Estimate Accuracy in Thomson Reuters.

Table 15: Credit Suisse ERR Summary

Credit Suisse: Guillaume Gauvillé	
Issue Date	16/07/2020
Recommendation	Outperform
Price - as of 15th July (GBp)	1,470.00
Valuation Models:	
DCF Valuation (50%)	1,930.00
Relative Valuation - P/E Multiple (50%)	1,580.00
Price Target (GBp)	1,750.00

Before making a more in-depth comparison it is important to disclaim that in July there was still a lot of uncertainty regarding what would happen in the second half of the year, and the extent of the impact of COVID in Burberry was still not clear. Therefore, this comparison is limited in that regard.

The analyst chose to provide an intrinsic valuation model, as well as a relative valuation model, which is the same methodology proposed in this dissertation. However, in this dissertation's model, the Relative Valuation was based on the P/E multiple and the EV/EBITDA multiples. The DCF model will be compared more extensively as it is more dependent on the assumptions made.

Credit Suisse proposes a forecasting period of 10 years, composed by a five-year explicit forecasting period (FY2021-FY2025) and an intermediate forecasting window (FY2026-FY2030). The bank does not justify the choice of this forecasting period. In this dissertation, a period of seven years was considered sufficient, taking into consideration past literature and the Burberry's position in the luxury market.

In terms of revenue growth, the bank expects a decline of 15% (vs -15.9%)[4] in FY2021 and an increase of 17% (vs 23%) in FY2022. The IB expects FY2023 sales and profitability to be below pre-crisis levels. For the rest of the forecasting period, a CAGR of 4.8% (vs 2.5%) is proposed, driven by a strong management team and improving brand heat. These factors were

[4] In brackets are the values proposed in this dissertation

also taken into consideration in this dissertation, however, were moderated by the consolidation of the PLG industry.

Credit Suisse does not provide estimates for COGS and SG&A, however, a detailed forecast of the EBIT is presented. The IB expects the EBIT margin to decrease to 12.1% (vs 11.5%) in FY2021 and expects it to reach 15% (vs 16.8%) by the end of the forecasting period. It was not provided any further justifications for these results. The higher margin in this dissertation's model is driven by the expected savings and better efficiency after the restructuring program is finished in 2022.

Regarding CAPEX, the bank also forecasted PP&E and Intangibles CAPEX separately from Lease CAPEX. PP&E and Intangibles CAPEX were predicted as a % of sales and were assumed to decrease progressively, reaching 5% in FY2030. In this dissertation's model, I assumed the CAPEX would be constant at 5.1%. In terms of Lease CAPEX, the IB also forecasted it as a % of sales assuming 12.6% in FY2021, which I presumed to be lower due to management guidelines provided in the Interim Results. Lease CAPEX converges then to 7% (vs 8%) by the end of the forecasting period. D&A and Working Capital were also estimated as a % of sales, but despite the differences in the forecasting approach the difference in absolute values does not significantly impact price.

Finally, in the figure below, we can see the main difference in the assumptions regarding the discount rate and long-term growth rate. The IB does not justify its values for WACC and LT Growth Rate, therefore, it is not possible to know the underlying assumptions.

Table 16: Comparison of Key DCF Inputs

	Credit Suisse	Baseline Model
WACC	7.0%	6.2%
Cost of Debt	2.0%	1.3%
Cost of Equity	7.1%	7.5%
LT Growth Rate	2.00%	2.35%
EV (£m)	6685.00	8988.39
Equity (£m)	7337.00	8624.77
Price per share	£18.00	£21.31
Equity Value per share (12-month)	£19.30	

The IB also provided an alternative scenario analysis. In their blue-sky scenario, it is assumed FY23 sales are 6% (vs. 19.8%) higher than pre-crisis levels, reaching a 12-month fair value of £21.50. Their grey-sky scenario is based on the assumption that FY23 sales are 17% (vs. 5.2%) lower than pre-crisis levels, delivering a 12-month fair value of £9.00.

Overall, the model suggested in this dissertation is more optimistic in terms of price estimation, influenced by a less uncertain environment than the one lived in July.

7 Conclusion

The valuation model yields a fair value per share of £19.96 on the 31st of March of 2021, which reflects a HOLD recommendation as of 11th December 2020. The valuation was computed as an average of the DCF model and Relative Valuation. The DCF model presented a share price of £21.31, reflecting an upside of 17.4%. The assumptions were tested through a scenario and sensitivity analysis to acknowledge the uncertainty in the market. These conclude that in the worst-case scenario, a Hold recommendation is still applicable, and in the best-case scenario, an Outperform/Buy recommendation can be issued.

Figure 19: Football Field

The relative valuation was based on forward-looking multiples and reached a share price of £18.62, which reflects a Hold recommendation. These results alongside with Burberry's strong management team and its ability to successfully recreate brand heat, despite the difficult times, lead me to issue a favorable HOLD recommendation.

Finally, as any valuation, the model proposed is highly dependent on the assumptions made, and despite the efforts to make it the most objective, it still reflects my personal opinion. Therefore, investors should consider this recommendation only as a single factor when making their investment decisions.

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9 Appendix

Appendix 1 – Macroeconomic Outlook

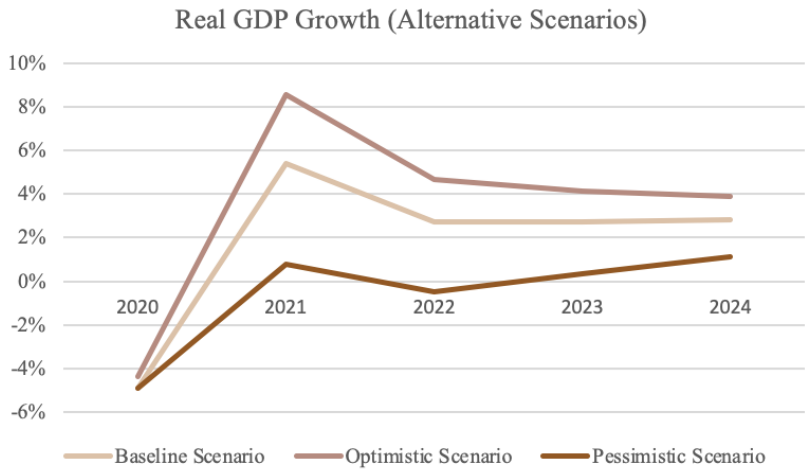
IMF (2020) outlines three possible scenarios for the near future. The baseline scenario in which the economy is expected to recover at a gradual rate starting in H2 of 2020, achieving a global growth of 5.4% in 2021.

The pessimistic scenario, which assumes a second global outbreak will occur in early 2021. It is assumed the impact will be half the size of the first outbreak, occurring additional tightening in the financial conditions. This outbreak is expected to cause further long-lived damage to the economy.

The optimistic scenario assumes recovery is faster than expected, due to greater confidence in post-lockdown measures and less precautionary behavior by families and households. Additionally, the development of a safe vaccine could lift the sentiment and improve growth outcomes in 2021.

Figure 2 displays the world GDP growth for the three scenarios presented.

Figure 20: Alternative Scenario Analysis for Real GDP Growth rate. Source: (IMF, 2020)

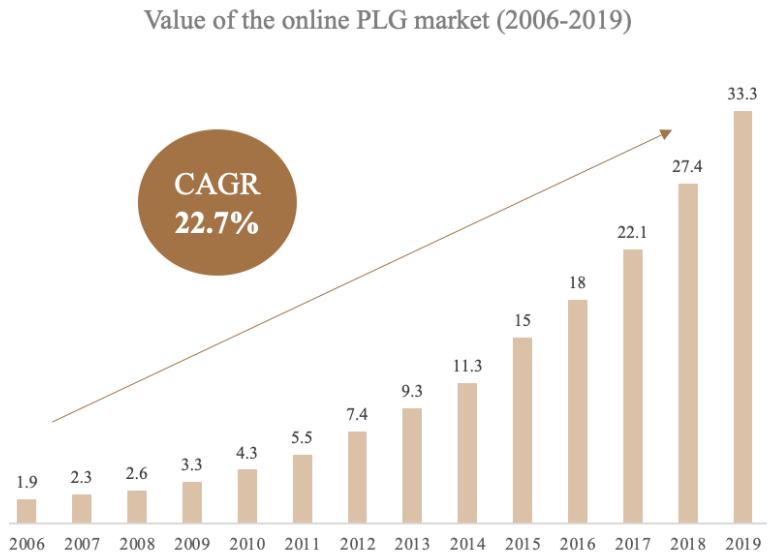


Appendix 2 - Key Industry Trends

1. Digital Channels will be the center of operating models

The online channel has been gaining increasing importance in the PLG market. Solely in 2019 grew approximately 22%, reaching a value of 33.3€ billion, which represented 12% of the entire PLG market.

Figure 21: Value of the online PLG market (€ billion). Source: Statista



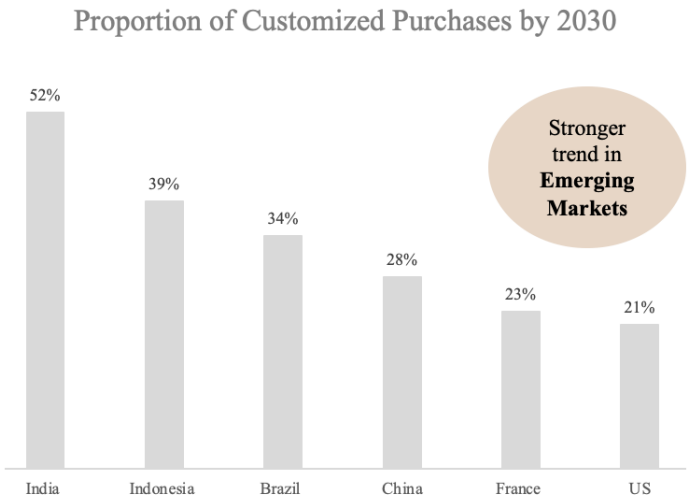
Online sales increased exponentially during lockdown, and many customers will remain using online channels as their preferred approach.

Luxury companies will have to adjust to this increasing trend in online purchases as customers are used to a high standard of service in stores (BoF & McKinsey & Company, 2020).

2. Customized Apparel

Customizable apparel is a growing trend, and while many brands are already offering this option, there is still room to grow. Newer and more sophisticated forms of customization are appearing, such as personalized recommendations based on past shopping behavior or crowdsourcing of new personalized styles (Deloitte, 2020a). Deloitte estimates that players offering fully customizable products could achieve a 10 to 30% market share by 2030 (Deloitte, 2020a).

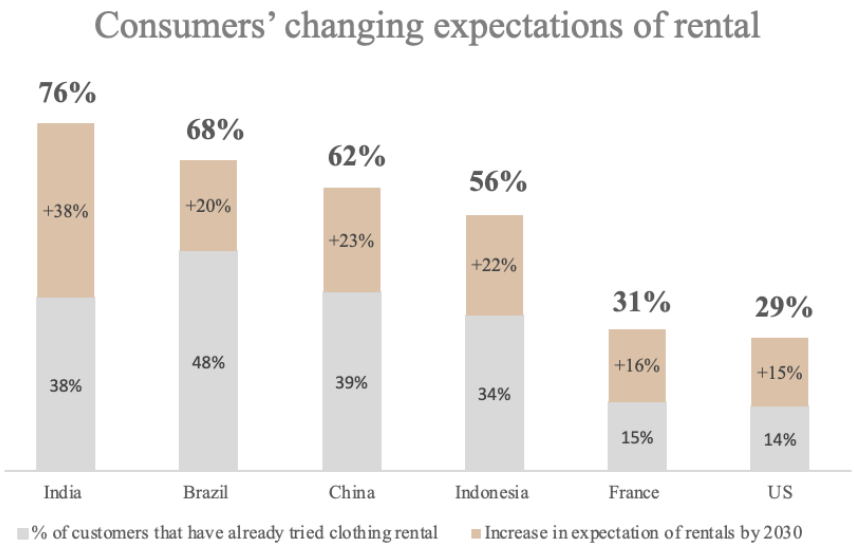
Figure 22: Consumers' expectations regarding the proportion of customized purchases in 2030 (Deloitte, 2020a)



3. Alternative commerce models (Re-commerce)

New forms of buying and using apparel are emerging. Consumers can now rent clothing or purchase used clothing for any occasion, subscribe to services that ship collections of apparel and footwear every month and even buy clothing directly through social media platforms (Deloitte, 2020a). Deloitte research indicates that 20% of customers have already bought used clothing and expect to do it even more in the future.

Figure 23: Consumers' changing expectations of rental, by country (Deloitte, 2020a)



These re-commerce options will appeal to those not willing to spend a high proportion of income on apparel and to consumers who are concerned about environmental sustainability,

which is a growing trend. Deloitte (2020) research shows that these models could significantly gain market share in the upcoming years and reach a 9% share by 2023.

4. Sustainability

As consumers become more aware of environmental changes, the demand for sustainable products is slowly increasing, and it will be a must-have for all luxury companies in the future. Brands must reconsider their value-chain and ensure ethical and environmental-friendly practices (BCG, 2020).

Appendix 3 – SWOT Analysis

STRENGHTS

Liquidity Position:

- Burberry has always had a strong liquidity position, with an average Quick Ratio of 1.85 in the past 5 years. The Industry median is at 0.91.

Multi-Channel Selling

- The company sells its products through multiple channels, which increases its direct-to-consumer business. They retail their products through a combination of in-store and online business format that contributes to an increase in brand awareness, store traffic and sales.
- Burberry's diversified operational base enables it to focus on its long-term growth plans which in turn enhance the investor's confidence and its future growth opportunities and expansion plans

Wide Geographic Presence

- The company's presence in diverse territories eliminates the operating risk from operating in a single territory.
- As of March 2020, the company had 421 direct operated stores, 44 franchised stores spread across the globe. Burberry website is also available in 33 countries.

WEAKNESSES

Financial Performance

- Burberry's has been presenting a weak financial performance in the past three years. The company's revenues decreased approximately 5% since 2017. Additionally, an increase in COGS resulted in a 12% decrease in Gross Profit from 2017 to 2020.
- Decline in financial performance restricts the company to provide higher returns to its shareholders and also decreases its ability to allocate adequate funds for growth initiatives

Monobrand Luxury company

- The core part of the company's portfolio (trench coats and scarves) is limited in growth by economic cycle and exclusivity perception

- Expansion to other categories where the company is not established can expose it to fashion risk and operational mistakes

OPPORTUNITIES

Global Luxury Goods Market

- The changing global trends and increasing brand consciousness among youth are providing growth opportunities to companies offering luxury goods.

Global Online Retail Market

- Retail e-commerce is growing at a faster rate. Burberry has an opportunity to further enhance its online positioning, which can help raise brand awareness and reduce operating costs, which are must lower in the online retail format

Global Video Game Market

- The company stands to benefit from growing global video game market, especially in mobile gaming. This market is expected to reach £78.7 billion.
- Burberry launched a new online game called Ratberry after the success of B Bounce (launched in Oct 2019), which was played 1.5 million times over 40 countries in the first three months.

THREATS

Labor Costs in the UK

- In FY2020 the company employed 9,892 people. Further rise in rising wages could increase the operating costs of the company.

Market Competition

- The globalized nature of luxury goods market increases intensity of rivalry with regard to strengthening its distribution network, thereby exerting great pressure on the company's future growth revenues and profitability.

Cybersecurity and Data Privacy

- The constantly evolving cyber threats could disrupt the security of the company's systems and business applications, restraining its ability to provide services to its customers and protect the privacy of their data.

COVID-19

- The impact of the pandemic can be prolonged, leading to long-term disruptions to supply chain, shifts in consumer demand, and travel restrictions

Alternative Commerce Models

- New business models are emerging, many consumers are now renting or buying second-hand apparel and accessories. These models are expected to have an increasing market share in the future, potentially threatening the business of Burberry and other Luxury companies.

Appendix 4 – Income Statement

Table 17: Income Statement

	Historical Income Statement (£m)					Forecasted (£m)						
						Stage I		Stage II			Stage III	
	Mar-16	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**	**Mar-26**	**Mar-27**
Revenues	2,514.70	2,766.00	2,732.80	2,720.20	2,633.10	2,214.04	2,723.86	2,910.71	3,064.99	3,202.08	3,325.29	3,451.89
YoY %	*(0.3%)*	*10.0%*	*(1.2%)*	*(0.5%)*	*(3.2%)*	*(15.9%)*	*23.0%*	*6.9%*	*5.3%*	*4.5%*	*3.8%*	*3.8%*
Cost of Sales	750.60	831.30	834.60	858.30	857.70	698.65	859.53	918.49	967.18	1,010.43	1,049.32	1,089.26
% Sales	*30%*	*30%*	*31%*	*32%*	*33%*	*32%*	*32%*	*32%*	*32%*	*32%*	*32%*	*32%*
Gross Profit	**1,764.10**	**1,934.70**	**1,898.20**	**1,861.90**	**1,775.40**	**1,515.39**	**1,864.33**	**1,992.22**	**2,097.82**	**2,191.64**	**2,275.98**	**2,362.63**
Gross Profit Margin	*70%*	*70%*	*69%*	*68%*	*67.4%*	*68%*	*68%*	*68%*	*68%*	*68%*	*68%*	*68%*
SG&A	1,214.10	1,332.00	1,307.60	1,308.00	1,011.50	991.51	1,046.36	1,118.14	1,177.41	1,230.07	1,277.41	1,326.04
% Sales	*48%*	*48%*	*48%*	*48%*	*38%*	*45%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*
EBITDA	**550.00**	**602.70**	**590.60**	**553.90**	**763.90**	**523.88**	**817.96**	**874.08**	**920.41**	**961.57**	**998.57**	**1,036.59**
EBITDA Margin	*22%*	*22%*	*22%*	*20%*	*29%*	*24%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*
Depreciation & Amortization	147.10	151.50	124.60	115.80	330.80	308.71	334.15	356.79	378.56	403.90	414.88	427.33
% Sales	*6%*	*5%*	*5%*	*4%*	*13%*	*14%*	*12%*	*12%*	*12%*	*13%*	*12%*	*12%*
Other Operating (Expenses) / Income	-	(56.90)	(55.70)	(0.90)	(244.40)	58.00	(22.50)	-	-	-	-	-
% Sales	*0%*	*-2%*	*-2%*	*-0.03%*	*-9%*	*3%*	*(0.8%)*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
EBIT	**402.90**	**394.30**	**410.30**	**437.20**	**188.70**	**273.17**	**461.31**	**517.29**	**541.85**	**557.67**	**583.70**	**609.27**
EBIT Margin	*16.0%*	*14.3%*	*15.0%*	*16.1%*	*7.2%*	*12.3%*	*16.9%*	*17.8%*	*17.7%*	*17.4%*	*17.6%*	*17.7%*
Interest Income	4.60	5.00	7.20	6.00	4.90	6.80	7.74	8.50	9.10	9.75	10.45	11.20
% of Cash & Cash Equivalents	*0.6%*	*0.6%*	*0.8%*	*0.7%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*
Interest Expense	1.50	1.00	1.30	0.60	25.50	29.24	30.76	32.32	33.86	35.37	35.62	36.01
Net Interest	**3.10**	**4.00**	**5.90**	**5.40**	**(20.60)**	**(22.44)**	**(23.02)**	**(23.82)**	**(24.76)**	**(25.62)**	**(25.18)**	**(24.81)**
Other financing income / (expense)	9.60	(3.50)	(3.60)	(2.00)	0.40	0.33	0.34	0.36	0.37	0.39	0.39	0.40
% of Financial Liabilities	*17.6%*	*(9.0%)*	*(12.9%)*	*(4.5%)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
EBT	**415.60**	**394.80**	**412.60**	**440.60**	**168.50**	**251.06**	**438.63**	**493.83**	**517.46**	**532.44**	**558.91**	**584.85**
Taxation	101.00	107.10	119.00	101.50	46.90	69.88	122.09	137.45	144.03	148.20	155.57	162.79
Net Income	**314.60**	**287.70**	**293.60**	**339.10**	**121.60**	**181.18**	**316.54**	**356.38**	**373.43**	**384.24**	**403.35**	**422.07**

	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Mar-26	Mar-27
DPS (£)	0.37	0.39	0.41	0.43	0.11	0.00	0.47	0.53	0.55	0.57	0.60	0.63
Payout Ratio	53%	60%	60%	52%	38%	0%	60%	60%	60%	60%	60%	60%
EPS (£)	0.70	0.65	0.69	0.82	0.30	0.44	0.78	0.88	0.92	0.95	1.00	1.04

Appendix 5 – Balance Sheet

Table 18: Balance Sheet

	Historical Balance Sheet (£m)					Forecasted (£m)						
	Mar-16	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**	**Mar-26**	**Mar-27**
Cash & Cash Equivalents	711.80	843.50	915.30	874.50	928.90	1311.32	1419.67	1561.58	1683.06	1813.25	1954.42	2104.88
Trade Receivables	197.90	191.80	117.00	119.70	107.00	94.06	115.72	123.66	130.22	136.04	141.27	146.65
Inventories	486.70	505.30	411.80	465.10	450.50	379.70	456.29	487.59	513.44	536.40	557.04	578.25
Income Tax Receivables	3.00	9.20	6.70	14.90	50.40	19.98	24.58	10.92	11.50	12.01	12.48	12.95
Derivative Financial Assets	8.00	5.00	1.60	3.00	6.70	3.12	3.84	4.11	4.32	4.52	4.69	4.87
Other Current Assets	87.50	83.80	89.30	131.40	145.10	100.44	123.56	132.04	139.04	145.26	150.84	156.59
Current Assets	**1494.90**	**1638.60**	**1541.70**	**1608.60**	**1688.60**	**1908.62**	**2143.66**	**2319.90**	**2481.57**	**2647.48**	**2820.75**	**3004.19**
Property, Plant & Equipment	426.20	399.60	313.60	306.90	294.90	271.42	268.71	299.21	301.21	302.24	302.71	300.72
Right-of-use Assets	0.00	0.00	0.00	0.00	834.00	833.39	902.27	972.62	1042.53	1110.69	1122.08	1139.33
Other Receivables	66.50	76.40	69.20	70.10	53.70	52.76	64.91	69.36	73.04	76.30	79.24	82.25
Intangible Assets	189.60	170.10	180.10	221.00	247.00	237.53	251.71	233.56	245.94	256.40	265.31	274.61
Deferred Tax Assets	134.40	125.00	115.50	123.10	171.50	112.66	138.60	148.11	155.96	162.93	169.20	175.64
Other Non-Operating Investments	2.40	2.60	2.60	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Other Non-Current Assets	0.30	1.10	0.30	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-Current Assets	**819.40**	**774.80**	**681.30**	**723.60**	**1603.60**	**1510.26**	**1628.69**	**1725.36**	**1821.17**	**1911.07**	**1941.04**	**1975.06**
Total Assets	**2314.30**	**2413.40**	**2223.00**	**2332.20**	**3292.20**	**3418.89**	**3772.36**	**4045.25**	**4302.74**	**4558.54**	**4761.79**	**4979.25**

	Historical Balance Sheet (£m)					Forecasted (£m)						
	Mar-16	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**	**Mar-26**	**Mar-27**
Current Debt	51.50	34.30	23.20	37.20	257.10	222.82	270.17	283.64	297.03	310.08	312.26	315.56
Income Tax Liabilities	80.40	50.10	32.90	37.10	7.90	21.16	26.04	42.49	44.74	46.74	48.54	50.39
Current Financial Liabilities	2.30	3.50	3.80	5.50	4.80	4.80	4.80	4.80	4.80	4.80	4.80	4.80
Provisions for other liabilities and charges	17.60	18.10	32.10	34.60	13.20	13.20	13.20	13.20	13.20	13.20	13.20	13.20
Trade Payables	167.20	172.30	153.20	221.60	197.30	156.45	192.47	205.67	216.58	226.26	234.97	243.92
Other Current Liabilities	220.00	286.80	307.70	304.10	250.20	235.73	290.01	309.90	326.33	340.92	354.04	367.52
Current Liabilities	**539.00**	**565.10**	**552.90**	**640.10**	**730.50**	**654.16**	**796.69**	**859.71**	**902.67**	**942.01**	**967.81**	**995.39**
Non-Current Debt	0.70	0.90	1.00	1.50	1211.90	1211.41	1267.10	1323.98	1380.51	1435.61	1444.82	1458.77
Deferred Tax Liabilities	0.60	0.40	4.20	3.40	0.10	2.08	2.56	2.74	2.89	3.02	3.13	3.25
Non-Current Payables	114.70	101.90	168.10	176.50	102.30	122.57	150.80	161.14	169.68	177.27	184.09	191.10
Provisions for other liabilities and charges	38.40	47.30	71.40	50.70	28.60	28.60	28.60	28.60	28.60	28.60	28.60	28.60
Non-Current Liabilities	**154.40**	**150.50**	**244.70**	**232.10**	**1342.90**	**1364.67**	**1449.06**	**1516.46**	**1581.68**	**1644.50**	**1660.64**	**1681.72**
Total Liabilities	**693.40**	**715.60**	**797.60**	**872.20**	**2073.40**	**2018.82**	**2245.75**	**2376.17**	**2484.35**	**2586.51**	**2628.46**	**2677.11**
Ordinary Share Capital	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Share Premium Account	209.80	211.40	214.60	216.90	220.80	220.80	220.80	220.80	220.80	220.80	220.80	220.80
Capital Reserve	41.10	41.10	41.10	41.10	41.10	41.10	41.10	41.10	41.10	41.10	41.10	41.10
Hedging Reserve	8.10	10.00	3.80	3.50	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70
Foreign currency translation reserve	164.90	260.80	214.70	227.70	245.20	245.20	245.20	245.20	245.20	245.20	245.20	245.20
Retained Earnings	1140.90	1169.00	946.10	965.60	702.20	883.47	1010.01	1152.49	1301.80	1455.44	1616.74	1785.54
Equity attributable to owners of the Company	**1565.00**	**1692.50**	**1420.50**	**1455.00**	**1214.20**	**1395.47**	**1522.01**	**1664.49**	**1813.80**	**1967.44**	**2128.74**	**2297.54**
Non-Controlling interest in equity	55.90	5.30	4.90	5.00	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60
Total Equity	**1620.90**	**1697.80**	**1425.40**	**1460.00**	**1218.80**	**1400.07**	**1526.61**	**1669.09**	**1818.40**	**1972.04**	**2133.34**	**2302.14**
Total Liabilities + Equity	**2314.30**	**2413.40**	**2223.00**	**2332.20**	**3292.20**	**3418.89**	**3772.36**	**4045.25**	**4302.74**	**4558.54**	**4761.79**	**4979.25**

Appendix 6 – Weight Distribution by Country

Table 19[5]: Weight Distribution by Country

		Weights	Adjusted Weights
	ASIA/PACIFIC		
42%	China Mainland	36.6%	15.3%
	Korea, Republic of	28.5%	11.9%
	Australia	3.5%	1.5%
	Japan	31.4%	13.1%
	EMEIA		
35%	Denmark	2.2%	0.8%
	France	19.8%	6.8%
	Germany	12.1%	4.2%
	India	5.5%	1.9%
	Italy	13.2%	4.5%
	Portugal	4.4%	1.5%
	Russia	4.4%	1.5%
	Saudi Arabia	6.6%	2.3%
	South Africa	4.4%	1.5%
	Spain	5.5%	1.9%
	Turkey	5.5%	1.9%
	United Kingdom	16.5%	5.7%
	AMERICAS		
22%	Canada	16.9%	3.7%
	Mexico	11.3%	2.5%
	United States	71.8%	15.9%

Appendix 7 – Weighted GDP Growth Rate

[5] The weight for each country was determined using the number of stores. The weight was then adjusted by Burberry's expected % of sales for each geographic area

Table 20: Weighted GDP Growth Rate

	GDP Growth Rate *(Adjusted for UK's inflation)*											
ASIA/PACIFIC	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
China Mainland	7.5%	9.6%	9.2%	7.9%	2.7%	9.4%	7.5%	7.6%	7.6%	7.5%	7.5%	7.4%
Korea, Republic of	3.6%	5.9%	5.4%	3.8%	-1.1%	4.1%	4.8%	4.8%	4.6%	4.4%	4.2%	4.1%
Australia	3.5%	5.1%	5.3%	3.6%	-3.4%	4.2%	4.5%	4.5%	4.6%	4.5%	4.6%	4.6%
Japan	1.2%	4.9%	2.8%	2.5%	-4.5%	3.5%	3.4%	3.1%	3.0%	2.6%	3.1%	3.2%
EMEIA												
Denmark	3.9%	4.7%	4.9%	4.1%	-3.7%	4.7%	4.2%	3.9%	3.7%	3.7%	3.9%	3.9%
France	1.8%	5.0%	4.3%	3.3%	-9.0%	7.2%	4.6%	4.2%	3.9%	3.7%	3.6%	3.6%
Germany	2.9%	5.3%	3.8%	2.4%	-5.2%	5.4%	4.8%	3.7%	3.3%	3.2%	3.2%	3.2%
India	9.0%	9.7%	8.6%	6.0%	-9.5%	10.0%	9.7%	9.5%	9.4%	9.2%	7.9%	7.7%
Italy	2.0%	4.4%	3.3%	2.1%	-9.8%	6.4%	4.3%	3.6%	2.9%	2.9%	2.7%	2.7%
Portugal	2.7%	6.2%	5.1%	4.0%	-9.2%	7.7%	6.5%	4.8%	4.0%	3.7%	3.4%	3.4%
Russia	0.9%	4.5%	5.0%	3.1%	-3.3%	4.0%	4.0%	4.0%	4.0%	3.8%	2.2%	2.3%
Saudi Arabia	2.4%	2.0%	4.9%	2.1%	-4.6%	4.3%	5.1%	4.4%	4.6%	4.6%	3.7%	3.8%
South Africa	1.1%	4.1%	3.3%	2.0%	-7.2%	4.2%	3.2%	3.4%	4.1%	4.3%	4.6%	4.6%
Spain	3.7%	5.6%	4.9%	3.8%	-12.0%	8.4%	6.2%	5.3%	4.8%	3.5%	3.3%	3.3%
Turkey	4.0%	10.2%	5.5%	2.7%	-4.2%	6.2%	5.7%	5.4%	5.5%	5.5%	5.7%	5.6%
United Kingdom	2.6%	4.6%	3.8%	3.3%	-9.0%	7.1%	4.9%	3.8%	3.7%	3.6%	3.8%	3.9%
AMERICAS												
Canada	1.7%	5.9%	4.5%	3.5%	-6.3%	6.4%	5.1%	4.3%	3.8%	3.7%	3.7%	3.7%
Mexico	3.3%	4.8%	4.7%	1.5%	-8.2%	4.7%	4.0%	4.1%	4.1%	4.1%	4.8%	4.8%
United States	2.4%	5.0%	5.5%	4.0%	-3.5%	4.3%	4.6%	4.2%	3.9%	3.8%	3.7%	3.8%
Total Weighted GDP Growth	**3.26%**	**5.83%**	**5.18%**	**3.90%**	**-4.06%**	**5.73%**	**5.00%**	**4.65%**	**4.47%**	**4.30%**	**4.27%**	**4.26%**

Appendix 8 - Weighted Growth on Gross Disposable Income

Table 21: Weighted Growth on Gross Disposable Income

	Growth in Gross Household Disposable Income											
ASIA/PACIFIC	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
China	2.4%	7.9%	14.5%	3.2%	2.9%	11.5%	9.0%	8.3%	7.2%	6.9%	6.7%	6.5%
Japan	12.0%	-2.2%	3.9%	2.6%	-2.5%	1.3%	0.7%	-0.2%	5.8%	3.7%	3.7%	3.6%
South Korea	-0.1%	6.3%	6.9%	-3.6%	-3.8%	9.9%	6.2%	5.6%	5.7%	4.4%	4.3%	4.2%
Australia	1.1%	6.0%	0.6%	-3.4%	-14.0%	14.0%	7.5%	10.5%	7.4%	4.8%	4.7%	4.6%
EMEIA												
Denmark	4.4%	5.4%	7.8%	-2.5%	-4.5%	6.3%	3.8%	3.9%	3.9%	3.9%	3.9%	3.8%
France	1.6%	4.3%	5.6%	-2.6%	-6.8%	10.7%	3.2%	5.0%	5.9%	4.0%	4.0%	3.9%
Germany	2.8%	5.2%	8.5%	-2.1%	-5.3%	10.2%	3.2%	4.9%	5.8%	3.7%	3.7%	3.7%
India	5.9%	13.5%	6.8%	0.5%	-0.4%	15.1%	8.7%	7.4%	7.3%	7.2%	7.2%	7.1%
Italy	0.9%	4.0%	6.2%	-3.9%	-9.8%	11.5%	2.2%	3.9%	4.9%	2.9%	2.8%	2.5%
Portugal	3.4%	5.2%	9.4%	-1.8%	-7.4%	10.9%	2.4%	4.2%	5.2%	3.2%	3.2%	3.0%
Russia	-4.0%	21.3%	5.3%	2.5%	-18.2%	15.8%	9.5%	9.5%	9.6%	3.4%	3.3%	3.2%
South Africa	-8.4%	18.1%	6.4%	-3.9%	-22.5%	12.9%	7.8%	7.9%	5.3%	3.1%	3.2%	3.0%
Spain	1.3%	3.7%	10.5%	-1.4%	-7.6%	10.2%	3.5%	4.8%	4.1%	3.7%	3.7%	3.3%
United Kingdom	-10.1%	-2.1%	8.9%	-1.9%	-10.2%	11.5%	2.0%	2.8%	-1.9%	3.4%	3.4%	3.4%
AMERICAS												
Canada	-2.8%	7.3%	3.8%	1.7%	-10.5%	13.8%	5.9%	5.9%	5.9%	5.7%	5.5%	5.3%
Mexico	-9.4%	4.9%	4.0%	3.1%	-20.0%	15.8%	10.3%	10.7%	8.6%	4.9%	4.8%	4.7%
United States	2.9%	4.7%	6.2%	4.4%	-3.5%	5.8%	3.2%	3.1%	3.2%	3.2%	3.1%	3.0%
Total Weighted Growth Gross Disposable Income	**1.69%**	**4.76%**	**7.29%**	**0.47%**	**-5.05%**	**9.09%**	**4.55%**	**4.72%**	**5.04%**	**4.23%**	**4.20%**	**4.05%**

Appendix 9 – EMEIA Weighted growth on Tourism and Travel Spending

Table 22: EMEIA weighted growth on Tourism and Travel Spending

	Growth on Tourism and Travel Spending by International Visitors									
EMEIA	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Denmark	10.1%	6.6%	6.5%	2.9%	-33.0%	54.5%	8.5%	7.6%	9.5%	4.8%
France	-6.0%	10.9%	11.5%	1.5%	-43.5%	76.6%	10.6%	6.9%	6.1%	5.2%
Germany	2.5%	7.8%	9.0%	-2.2%	-76.4%	316.8%	8.5%	5.9%	6.7%	3.9%
India	8.2%	20.9%	5.5%	49.1%	-77.5%	365.2%	6.5%	8.4%	8.0%	8.6%
Italy	2.5%	10.7%	11.2%	2.7%	-38.7%	70.8%	12.6%	9.0%	9.1%	5.1%
Portugal	8.7%	23.0%	17.0%	7.9%	-63.4%	192.2%	13.4%	11.6%	11.9%	5.1%
Russia	-3.7%	17.1%	29.8%	0.2%	-71.1%	197.8%	13.0%	10.7%	7.8%	7.2%
South Africa	-3.7%	10.1%	1.3%	0.0%	-69.3%	169.9%	19.2%	1.3%	0.7%	7.7%
Spain	7.2%	13.1%	9.6%	6.3%	-42.3%	65.6%	9.9%	8.2%	10.5%	5.1%
United Kingdom	-10.7%	4.8%	-4.1%	13.3%	-72.0%	246.7%	4.7%	5.8%	6.7%	6.1%
EMEIA Weighted Growth on Tourism and Travel Spending	**-1.4%**	**10.8%**	**8.3%**	**6.9%**	**-58.1%**	**174.0%**	**9.8%**	**7.2%**	**7.3%**	**5.6%**

Appendix 10 – Revenue Estimation for Asia Pacific

Table 23: Revenue Estimation for Asia Pacific

ASIA PACIFIC	Mar-21	Mar-22
ASIA PACIFIC Weighted GDP Growth Rate (51.2%)	-0.9%	5.9%
ASIA PACIFIC Weighted Growth on Gross Disposable Income (48.8%)	-1.3%	7.9%
External Environment Factor (50%)	**-1.1%**	**6.9%**
Firm Factor (50%)	**15%**	**20%**
YoY Revenue Growth	**7.0%**	**13.4%**

Appendix 11 – Revenue Estimation for EMEIA

Table 24: Revenue Estimation for Asia Pacific

EMEIA	Mar-21	Mar-22
EMEIA Weighted GDP Growth Rate (29.5%)	-7.8%	6.5%
EMEIA Weighted Growth on Gross Disposable Income (36.3%)	-8.7%	11.4%
EMEIA Weighted Growth on Tourism and Travel Spending (34.2%)	-58.1%	174.0%
External Environment Factor (50%)	-25.3%	65.6%
Firm Factor (50%)	-50%	25%
YoY Revenue Growth	-37.67%	45.29%

Appendix 12 – Revenue Estimation for Americas

Table 25: Revenue Estimation for Americas

AMERICAS	**Mar-21**	**Mar-22**
AMERICAS Weighted GDP Growth Rate	-4.5%	4.7%
External Environment Factor (50%)	-4.5%	4.7%
Firm Factor (50%)	-37%	30%
YoY Revenue Growth	**-20.8%**	**17.4%**

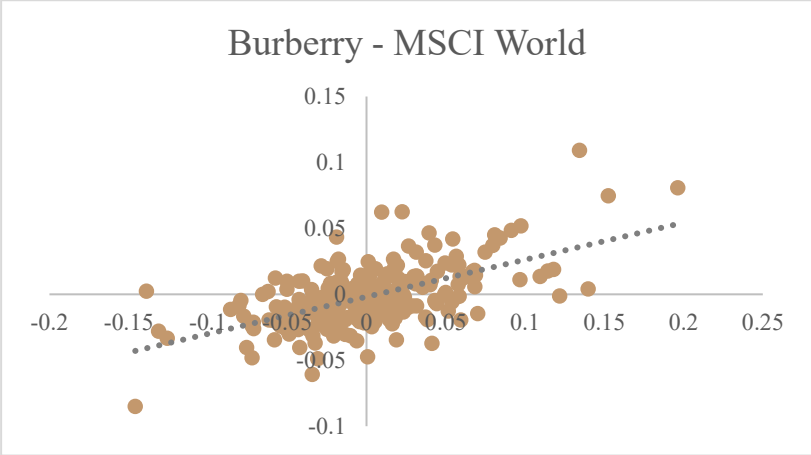
Appendix 13 – Revenue Estimation for Stage II and III

Table 26: Revenue Estimation for Stage II and III

	Mar-23	**Mar-24**	**Mar-25**	**Mar-26**	**Mar-27**
Total Weighted GDP Growth (43.8%)	5.0%	4.7%	4.5%	4.3%	4.3%
Total Weighted Growth on Gross Disposable Income (26%)	4.6%	4.7%	5.0%	4.2%	4.2%
PLG Industry Growth (30.2%)	8.2%	5.1%	3.0%	2.9%	2.8%
External Environment Factor	**5.9%**	**4.8%**	**4.2%**	**3.8%**	**3.8%**
Revenue Growth adjusted by Firm Factor	**6.9%**	**5.3%**	**4.5%**	**3.8%**	**3.8%**

Appendix 14 – Beta Estimation

Figure 24: Beta Estimation



Regression Statistics	
Multiple R	0.591194288
R Square	0.349510686
Adjusted R Square	0.346999145
Standard Error	0.037454833
Observations	261

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.195225163	0.195225163	139.1618061	5.42873E-26
Residual	259	0.363341916	0.001402865		
Total	260	0.55856708			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.002888415	0.002324991	1.242333626	0.215237163	-0.00168988	0.007466707	-0.001689878	0.007466707
Beta	1.242947015	0.105364082	11.79668623	5.42873E-26	1.035467694	1.450426337	1.035467694	1.450426337

Appendix 15 – Equity Risk Premium

Table 27: Equity Risk Premium

	Adjusted Weights	ERP
China Mainland	15.27%	6.26%
Korea, Republic of	11.88%	5.96%
Australia	1.45%	5.23%
Japan	13.09%	6.26%
Denmark	0.76%	5.23%
France	6.82%	5.96%
Germany	4.17%	5.23%
India	1.90%	8.46%
Italy	4.55%	8.46%
Portugal	1.52%	8.46%
Russia	1.52%	8.46%
Saudi Arabia	2.27%	6.26%
South Africa	1.52%	8.90%
Spain	1.90%	7.58%
Turkey	1.90%	11.84%
United Kingdom	5.69%	5.96%
Canada	3.74%	5.23%
Mexico	2.49%	7.58%
United States	15.87%	5.23%
Weighted ERP		**6.226%**

Appendix 16 – Long-term Real GDP Growth and Inflation Rate

Table 28: Long-term Real GDP Growth and Inflation Rate

	2016	2017	2018	2019	2020	...	2054	2055	2056	2057	2058	2059	2060	**LT Average**
Weighted Real GDP Growth (Adjusted with UK's Inflation)	3.3%	5.8%	5.2%	3.9%	-4.1%	...	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.78%
UK Inflation Rate	0.7%	2.7%	2.5%	1.8%	0.8%	...	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	1.94%

Appendix 17 – Optimistic Scenario FCFF

Table 29: Optimistic Scenario FCFF

	Historical (£ million)					**Forecasted (£m)**						
						Stage I		**Stage II**			**Stage III**	
FCF	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**	**Mar-26**	**Mar-27**
EBIT	402.90	394.30	410.30	437.20	188.70	408.84	517.09	584.93	609.05	624.05	650.76	675.35
- Taxes (Effective Tax rate)	97.91	106.96	118.34	100.72	52.52	113.80	143.93	162.81	169.52	173.70	181.13	187.98
= Earnings Before Interest after Taxes	304.99	287.34	291.96	336.48	136.18	295.04	373.16	422.12	439.53	450.35	469.63	487.37
+ D&A	147.1	151.5	124.6	115.8	330.8	309.59	350.20	379.43	406.42	436.83	450.95	468.30
- CAPEX	(132.95)	(105.44)	(48.62)	(150.06)	(300.75)	(299.79)	(513.96)	(491.48)	(519.40)	(542.93)	(488.89)	(517.35)
- Increase/(Decrease) in Net Working Capital	(313.90)	(26.60)	(149.90)	37.30	129.30	(91.01)	30.64	(17.34)	11.66	10.36	9.31	9.56
- Increase/(Decrease) in Non-Current Op. Assets/Liabilities	(1.90)	13.50	(86.70)	0.90	109.50	(45.95)	(22.41)	3.73	3.08	2.74	2.46	2.53
= Free Cash Flow to the Firm	634.93	346.50	604.55	264.03	(72.57)	441.80	201.18	323.67	311.81	331.16	419.92	426.23
NPV FCF							189.40	286.88	260.19	260.16	310.58	296.79

Appendix 18 – Pessimistic Scenario FCFF

Table 30: Pessimistic Scenario FCFF

	Historical (£ million)					Forecasted (£m)						
						Stage I		Stage II			Stage III	
FCF	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Mar-26	Mar-27
EBIT	402.90	394.30	410.30	437.20	188.70	162.78	217.41	256.17	454.22	469.25	493.20	516.46
- Taxes (Effective Tax rate)	97.91	106.96	118.34	100.72	52.52	45.31	60.51	71.30	126.43	130.61	137.28	143.75
= Earnings Before Interest after Taxes	304.99	287.34	291.96	336.48	136.18	117.47	156.90	184.87	327.80	338.64	355.93	372.71
+ D&A	147.1	151.5	124.6	115.8	330.8	292.77	310.31	331.80	349.12	370.03	378.37	388.29
- CAPEX	(132.95)	(105.44)	(48.62)	(150.06)	(300.75)	(153.65)	(343.17)	(418.77)	(408.36)	(426.06)	(384.34)	(399.05)
- Increase/(Decrease) in Net Working Capital	(313.90)	(26.60)	(149.90)	37.30	129.30	(139.48)	55.28	(11.95)	10.68	9.49	8.53	8.76
- Increase/(Decrease) in Non-Current Op. Assets/Liabilities	(1.90)	13.50	(86.70)	0.90	109.50	(86.52)	(9.26)	1.85	1.53	1.36	1.22	1.26
= Free Cash Flow to the Firm	634.93	346.50	604.55	264.03	(72.57)	482.59	78.02	108.00	256.35	271.75	340.20	351.94
NPV FCF							73.44	95.68	213.78	213.31	251.35	244.75

Appendix 19 – Peer Group

Table 31: Peer Group

		Company Info			Size (£ million)			Profitability		Growth	Leverage (£ million)	
Identifier	**Company Name**	**GICS Industry Name**	**Country of HQ**	**Number of Employees**	**Market Cap (GBP)**	**Revenue (LTM)**	**Total Assets, Reported (LTM, GBP)**	**ROIC - Mean (FY1)**	**EPS - Mean (FY1)**	**LT Growth - Mean**	**D/E, Percent (LTM)**	**Total LT Debt (LTM, GBP)**
BRBY.L	**Burberry Group PLC**	**Textiles, Apparel & Luxury Goods**	**UK**	**10,161**	**5,887**	**2,633**	**3,244**	**5.9%**	**0.50**	**2.0%**	**105.1%**	**1,041**
CPRI.N	Capri Holdings Ltd	Textiles, Apparel & Luxury Goods	UK	10,834	2,857	3,353	6,244	2.4%	0.69	1.4%	87.7%	1,241
BOSSn.DE	Hugo Boss AG	Textiles, Apparel & Luxury Goods	Germany	13,538	1,333	1,926	N/A	2.1%	-1.59	-10.9%	N/A	N/A
PRTP.PA	Kering SA	Textiles, Apparel & Luxury Goods	France	32,685	64,392	11,789	23,799	14.9%	14.41	2.5%	99.2%	6,257
LB.N	L Brands Inc	Specialty Retail	USA	25,500	7,038	8,842	7,938	9.5%	0.92	3.7%	N/A	4,307
LEVI.N	Levi Strauss & Co	Textiles, Apparel & Luxury Goods	USA	15,800	4,698	3,641	3,998	N/A	0.10	N/A	103.8%	991
LVMH.PA	LVMH Moet Hennessy Louis Vuitton SE	Textiles, Apparel & Luxury Goods	France	147,715	197,516	40,963	87,737	8.6%	7.53	4.9%	86.1%	18,317
MONC.MI	Moncler SpA	Textiles, Apparel & Luxury Goods	Italy	4,028	8,717	1,428	2,198	21.0%	0.74	7.6%	55.4%	503
PNDORA.CO	Pandora A/S	Textiles, Apparel & Luxury Goods	Denmark	28,000	6,501	2,230	2,342	19.0%	2.72	N/A	192.8%	720
RL.N	Ralph Lauren Corp	Textiles, Apparel & Luxury Goods	USA	13,700	3,791	3,680	5,974	6.7%	1.16	3.1%	58.7%	956
TIF.N	Tiffany & Co	Specialty Retail	USA	14,100	12,099	2,940	5,119	6.3%	1.57	-0.8%	39.2%	684