

**Burberry**

Ticker MyBolsa/website BiG	BRBY
Ticker BiGlobal Trade	BRBY
Ticker BiGTrader24	BRBY
Ticker BiG Power Trade	BRBY
P/E Ratio 2018E	21,07
P/BV Ratio	5,03
EV/EBITDA	2,27

Source: Bloomberg; BiG Research

**Burberry (Ticker: BRBY)**
 **Description**

Burberry was founded in Britain in 1856 and is known for its trench coats and scarves, which reached classic status in the luxury goods market. The company is a global luxury player, producing ready-to-wear collections, accessories, fragrances and sunglasses, all under the Burberry brand umbrella. The company trades in the London Stock Exchange with a market cap of GBP 7 mn.

**Price and Performance (Values in GBP)**

Price	1707,00
52 Week High	2338,00
52 Week Low	1481,50
YTD	-4,7%
Average Daily Volume	1.993.079
Market Cap (mn)	7.022
Beta	1,03
Dividend	0,41
EPS	0,69

Source: Bloomberg

**Consensus (last 5m)**

Buy		2
Hold		12
Sell		10

Source: Bloomberg

**Financial Information**

Sales (GBP mn)	2.733
EBITDA (GBP mn)	542
Nº of Employees	9.752
ROA	12,7%
ROE	18,9%
D/E	0,0%
Dividend Yield	2,4%

Source: Bloomberg.

Note: Annual Values

**Notes:**

All quotes were updated in Bloomberg at closing prices of 22/10/2018.

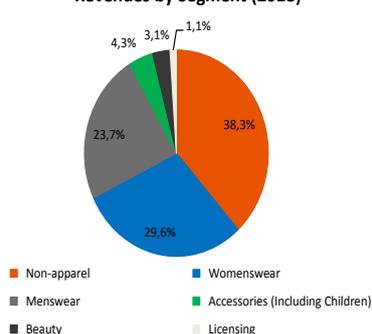
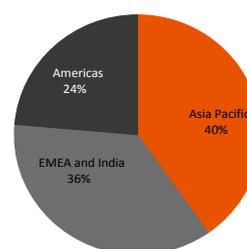
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**Revenues by Segment (2018)**

**Revenues by Geography (2018)**


Source: Bloomberg.

Note: Burberry's fiscal year ends at 31/March.

 **Investment Thesis**

**New leadership:** Burberry underwent a significant strategy shift with the entry of a new CEO - Marco Gobbetti – in 2017 and a new chief creative designer Riccardo Tisci in 2018. The new duo, which worked together in the 2000s on LVMH owned Givenchy with great success, aims to replicate the past with Burberry. The company's stock priced positively these changes. Tisci revealed his first collection for Burberry past September, and the full impact of the partnership in sales should begin to be in effect next year when the collection hits the shelves.

**Strategic Revamp...:** Alongside the change in leadership the company also underwent strategic changes, announced last year. The company refocused its strategy in the leather goods and accessories segment (i.e. handbags), which carries higher margins, consumer engagement and loyalty, aiming to position its offer in the price points between USD 1.000 – USD2.000. The ultimate goal of the strategic revamp is to establish Burberry as a truly premium luxury brand, avoiding the pitfalls that come from the customer perception of 'affordable luxury' (less pricing power). Therefore Burberry is centralising more of its sales (removing products from third party retailers that do not fit with the luxury category), which allows for more control over the brands image and pricing, as well as closing some outlet stores. The company will also increase its digital presence (it is collaborating with Farfetch to sell its inventory on the platform), modernize its stores and it continues to increase the periodicity of launch of new products (new entries during the season rather than supplying the full collection of products at once).

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### ▲ Risks

...**With a long term view:** The strategic changes to the company come at a price – the focus on margin expansion and increase in pricing power led Burberry to forecast a “stable turnover and operational profit margin” for 2019 and 2020 when announcing the new strategy, as well as restructuring costs of GBP 51 mn. The stock price reacted negatively at the moment of announcement of the strategy. We perceive the strategy as positive and value creating in the long-run, but its application in the short-term will not occur without some pain.

**Unsuccessful Repositioning:** The main risk for Burberry is its ability to enact successfully the brand positioning to a premium luxury player. Several companies have attempted to perform the shift in customer perception (Mulberry, Hugo Boss) and failed, as the customers did not ‘buy’ the new positioning and consider prices unadjusted (i.e. too high) for their perception of the brand, rendering the change unsuccessful. The ‘belt bag’ launched by the company (priced at around USD 2.000) is a success story in this strategic change to leather goods, but the release of other models is needed to truly prove the overall success of the strategy.

**Exposure to Asia:** The company generates the largest percentage of its revenues from the Asian continent, with China as the main market. In the event of an economic slowdown, the demand for Burberry products could be negatively impacted, exacerbating the risk of the strategic revamp not being successful.

### ▲ Earnings

The company reported a comparable sales growth rate of 3% in quarterly sales to GBP 479 mn, a rate in line with estimates, with Asia-Pacific sales growing by mid-single-digit percentage (trailing other European *peers* growth in the geography), EMEIA sales decreasing by low-single-digit percentage and Americas sales growing by high-single-digit-percentage.

Burberry reiterated the yearly guidance of broadly stable revenue and adjusted operating margin, projecting currency effects of GBP 25 mn and indicating that it is on track to deliver GBP 100 mm of costs savings.

### ▲ Upcoming Events

8<sup>th</sup> of November – Interim Results

### ▲ Comparative Analysis

Name	PER Actual	PER 5 Yr. Average	P/E 2018E	P/E 2019E	P/BV	YTD	ROE	ROA	D/E	Net Debt/T12M EBITDA	EBIT Margin
HERMES INTERNATIONAL	38,7	36,2	38,5	35,4	10,8	11%	28%	21%	1%	-1,3	35,6
TAPESTRY INC	16,1	16,0	15,4	13,9	3,8	-4%	13%	6%	49%	0,5	11,4
PRADA S.P.A.	37,9	24,0	26,1	21,8	2,9	0%	8%	4%	35%	n.a.	10,1
LVMH MOET HENNESSY LOUIS VUI	22,0	19,8	20,6	18,9	4,4	7%	21%	9%	40%	0,8	20,5
KERING	21,3	25,4	17,2	15,1	5,0	0%	32%	15%	46%	1,0	22,0
BURBERRY GROUP PLC	24,6	21,4	21,1	20,0	5,0	-5%	19%	13%	2%	-1,8	15,0
Média exc. Hermes	27,2	24,3	23,6	21,0	5,4	3%	20%	11%	34%	0,2	19,9

Fonte: Bloomberg; BiG Research

Burberry is trading at multiples slightly below the luxury sector average, but with a PER above its 5 year average. The company has a below average EBIT margin (which should

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improve with the cost reduction program in place) and an unlevered balance sheet. The return on equity and return on assets are in line with the average values for the sector. After reaching all-time highs in the summer of 2018 (GBP 2.347,24 per share), Burberry has given up all gains in 2018, being highly penalized by concerns of a Chinese economy slowdown.

Income Statement (GBP mn)	2017	2018
Revenues	2.766	2.733
Cost of Sales	- 833	- 835
Gross Profit	1.933	1.897
Net operating expenses	- 1.539	- 1.487
Operating income	394	410
Net financial income	1	2
Taxes	- 107	- 119
Consolidated Net Income	288	294
Non-controlling interests	1	0
Owners of the Company	287	294

Source: Company Data; BiG Research  
Note: Burberry's fiscal year ends at 31/March.

### Financial Accounts

Burberry reported a 1% decrease in revenues between 2017 and 2018 to GBP 2,7 bn, while net income increased 2% to GBP 294 mn, due to lower operating costs and an increase in financial income.

The company disinvested from the beauty unit in 2018, obtaining proceeds of GBP 61,1 mi. It announced in May that a GBP 150 mn buyback program (the company has already used in the past its positive net cash to realize buyback programs). Burberry has increased consecutively its dividends (paid in two tranches per year) since 2007, and relative to the 2018 results, the total dividend paid was GBP 41,3 per share.

Balance Sheet (GBP mn)	2017	2018
Cash & Equivalents	844	915
Trade Receivables	352	276
Inventories	505	412
Property Plant & Equipment	400	314
Intangible assets	170	180
Other Assets	143	127
Total Assets	2.413	2.223
Bank overdrafts	34	23
Trade Payables	561	629
Other liabilities	120	145
Total Liabilities	716	798
Total Equity	1.698	1.425
Equity + Liabilities	2.413	2.223

Source: Company Data; BiG Research

Burberry acquired, already in the 2019 fiscal year, CF&P (one of its suppliers of leather goods) for an undisclosed sum. This acquisition provides a higher control of the supply process for the company and allows it to more rapidly put new products on stores.

Free Cash Flow (GBP mn)	2017	2018
Operational Cash Flow	561	678
Net Income	287	294
D&A	152	131
Changes in WC	72	221
Non-Cash Items	51	33
Investment Cash Flow	- 96	- 45
Change in Fixed & Intangible Assets	- 96	- 106
Change from Acquisitions & Divestitures	-	61
Financial Cash Flow	- 342	- 536
Debt change	-	-
Share buyback	- 109	- 364
Dividends	- 164	- 169
Others	- 69	- 3
Effect of Foreign Exchange Rates	26	- 15
Change in free cash flow	149	83

Source: Company Data; BiG Research

### Corporate Governance

Marco Gobbetti is the CEO of Burberry since July 2017. Mr. Gobbetti has a vast career in fashion, working between 2004 and 2008 as CEO and chairman of Givenchy and between 2008 and 2016 as CEO and chairman of Céline (both LVMH owned brands). His total salary is GBP 6,3 mn, of which GBP 1,15 mn is fixed remuneration, GBP 0,83 mn is short-term remuneration and GBP 4,34 mi is due to buyout shares ( provided as compensation for the share awards forfeited at his previous employer). Burberry's chairman is Dr. Gerry Murphy.



Source: Google Images

### Graph



Source: BiGlobalTrade; BiG Research

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  - Accumulate, expected absolute return between +5% and +15%;
  - Keep/Neutral, expected absolute return between -5% and +5%;
  - Reduce, expected absolute return between -5% and -15%;
  - Sell, expected absolute return below -15%;

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PSI20 Notes in the last 12 months as of 30<sup>th</sup> of September of 2018:

	Number of Recommendations	%
Accumulate/Buy	3	75,0%
Keep/Neutral	0	0,0%
Reduce/Sell	1	25,0%
<b>Total</b>	<b>4</b>	<b>100,0%</b>

Trading Ideas in the last 12 months as of 30<sup>th</sup> of September of 2018:

	Number of Recommendations	%
Profit Taking	11	61,1%
Stop Loss	6	33,3%
In Place	1	5,6%
<b>Total</b>	<b>18</b>	<b>100,0%</b>

Pair Trades in the last 12 months as of 30<sup>th</sup> of September of 2018:

	Number of Recommendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
<b>Total</b>	<b>0</b>	<b>0%</b>

Source: BiG Research

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