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**A Critical Analysis of Burberry plc's Shareholder Wealth
Creation in The Five-Year Period from 2016/17 to 2020/21**

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Table of Contents

Introduction	3
Company Background	3
Industry Background	4
Economic Environment	4
Aims and Objectives	5
Design and Methodology	5
Project Structure	6
Literature Review	8
Shareholder Wealth Maximisation	8
Measuring Shareholder Wealth	9
Agency Theory	11
Dividend Policy	12
Capital Structure	15
Conclusion	17
Company and Industry Overview	18
Company Overview	18
Industry Overview	23
Shareholder Wealth Creation	28
Share Price Analysis	28
Investment and Profitability Analysis	30
Dividend Analysis	32
Capital Structure Analysis	34
Discussion and Evaluation	35
Conclusion	38
Reference list	41
Appendices	50

Introduction

The creation and maximisation of wealth for shareholders is the main objective of a company through its operations. Through their investment in the company, shareholders demand that their wealth is increased over time. This can be done in various ways, from the share price, company performance, dividends, and capital structure, which will be analysed in this project both theoretically and practically.

Burberry plc is used as a case study to analyse the creation of shareholder value through the different activities of the company. The objective of this project is to assess whether investor wealth has been created and to evaluate its extent from 2017 to 2021.

Company Background

Burberry plc (Burberry) is one of the largest companies in the luxury fashion industry. Burberry is headquartered in London, UK, listed on the London Stock Exchange since 2005 and is a member of the FTSE 100 index. The brand was founded in 1856 by Thomas Burberry, whose idea was that clothing should be designed to protect against British weather conditions (Burberry, 2021).

The products offered are clothing, footwear, accessories, eyewear, and perfumes. However, the most distinctive product is the trench coat, which was invented and first used during the First World War. Characterised by epaulettes and a wind-breaking flap, it was particularly suitable for rainy days. In 1920, the tartan pattern was patented, which distinguishes the brand worldwide. In 1999, the brand name was switched from Burberry's to Burberry and in 2018, the brand's logo was changed. Previously inspired by an equestrian knight like the thirteenth and fourteenth armour on display at the Wallace Collection in London, it is now a monogram inspired by Thomas Burberry (Burberry, 2021).

Industry Background

The industry in which Burberry operates is that of luxury products, sold both in physical shops, online and through wholesale partners. The products in this industry are clothing, footwear, and accessories. This industry is in the maturity of its life cycle, where the main players operating in this sector are Burberry, LVMH and Kering. In the last five years, the industry has grown steadily, only in 2020/2021 it suffered a decrease in total revenue of 14.5% due to restrictions on tourists, shop closures and security clearance measures caused by the COVID-19 pandemic (Mak, 2021).

Economic Environment

Burberry mainly operates in three regions of the world: Asia Pacific, EMEA (Europe, Middle East, India, and Africa) and the Americas (Burberry, 2021). The Asia Pacific region has become of key importance for Burberry especially since 2017/18 (Burberry, 2018), because the fastest-growing luxury customer market, China, is supported by the growing middle class, which leads to increased spending on luxury products. As far as Europe is concerned, there has been slight growth in recent years, notwithstanding the uncertainty due to Brexit, which has led to heightened volatility and forced Burberry to act cautiously and repetitively to the changing environment. In the Americas, despite the increase in local consumption, the luxury sector underperformed from 2016/17 to 2017/18 due to fewer tourists coming to America, who prefer destinations in Europe and Asia because of the strong United States Dollar (USD) (Burberry, 2021). In 2018/19 and 2019/20, the luxury sector in America grew slightly, thanks to robust local spending, but was negatively affected by political tensions and trade with China, which undermined tourist consumption. As of 2020, the luxury industry was strongly negatively affected by the COVID-19 pandemic. Government-mandated store closures, costs related to the security of people in boutiques, and a drastic drop in tourists, especially from China, led to a drop in sales for Burberry of 36% in Europe and 27% in America in 2020/21. Only in Asia, there was an increase in sales of 45% in 2020/21 (compared to 26% in the previous year). This result is due to the reduction in

overseas travel and an increase in the purchase of luxury goods by Chinese customers supporting their local economy (Mak, 2021).

Aims and Objectives

The ultimate aim of this project is the evaluation and analysis of value creation for Burberry's shareholders. Burberry was chosen as a case study because I have always been interested in the luxury sector and I find it extremely fascinating to evaluate whether a company belonging to the luxury sector, one of the sectors most affected by the consequences of COVID-19, still managed to create value for shareholders. To do this, both theoretical aspects relating to the creation of shareholder value and aspects related to the company's strategy and financial performance from 2016 to 2021 were taken into consideration.

Design and Methodology

In order to achieve the objective of this project, the research was divided into five main areas: the discussion of relevant theories concerning the creation of shareholder value, the explanation of the strategy used by Burberry, the analysis of qualitative and quantitative data, the evaluation and discussion of this data and the conclusions. All data was derived from Burberry's annual reports, financial websites, academic articles, published articles and financial databases. In addition, images and graphs are used to best represent Burberry's financial situation and compare it to industry competitors.

This project has some limitations. The information that is presented in annual reports and financial websites is subjective, where typically the positive aspects are highlighted. In addition, there may be inaccuracies in the assessment of Burberry's annual reports with that of its competitors due to the difference in the fiscal year, and adjustments could not be made due to a lack of information. This difference may result because Burberry's 2020 annual report ends in March 2021, while most competitors' annual reports end in December 2020. The period 2016-2020 was selected for the

annual reports of the competitor companies. In addition, profitability ratios and earnings yield data were taken from Morningstar and may differ slightly from actual or other databases. Finally, there may be differences given by the exchange rate when it comes to the analysis of revenues in that in some cases, they are offered in British pounds, while in other cases in US dollars.

Project Structure

The project is structured in independent but interconnected chapters and sub-chapters. The structure is as follows:

Literature Review

In this section, theories related to the creation of shareholder value and how this is measured are analysed, e.g., agency theory, dividend theory, shareholder wealth maximisation theory and capital structure theory.

Company and Industry Overview

This section analyses the strategy used by Burberry to create shareholder value concerning developments in the luxury industry over the last five years.

Shareholder Wealth Creation

This section uses tables and graphs to show the company's performance information from financial statements and databases. Then, stock prices and financial and non-financial data are shown that provide insight into the creation of shareholder value.

Discussion and Evaluation

This section represents the most important point of the project where the main figures related to the creation of shareholder wealth are analysed and commented on concerning competitors within the luxury industry. In addition, the data is also considered in relation to the theories discussed in Chapter 2 to assess whether the value was created in aspects considered in the literature review.

Conclusion

This chapter highlights the main results obtained from this project. Limitations and potential future scenarios and implications for shareholders and business managers are also identified.

Literature Review

This chapter discusses the most relevant theories concerning the creation of shareholder wealth and its maximisation; the ways in which it can be measured and related theories such as dividend policy, agency theory, and capital structure are also explained.

Shareholder Wealth Maximisation

Shareholder wealth, also generally referred to as shareholder value, is a term that was first introduced by Rappaport in 1986, in his book *Creating Shareholder Value* (Venugopal et al., 2019). Subsequently, starting in the mid-1990s, researchers realised that the traditional method of measuring corporate performance, based solely on the increase in profit in the income statement, did not provide information about the creation of shareholder value. Therefore, new alternative methods were invented to analyse both corporate performance and shareholder value maximisation through more suitable indicators.

The principle of Shareholder Wealth Maximisation (SWM) states that the operational and primary business objective of a public company must be the maximisation of return on equity capital for shareholders (Windsor, 2010). Furthermore, as Brealey et al. (2017) state, maximising shareholder value is a critical objective for shareholders who have access to financial markets and institutions, such as banks and insurance companies. This is because financial markets allow shareholders to diversify risk and carry savings over time. Additionally, stock exchanges permit for the precise division between shareholders and the corporation's financial managers where the former has the flexibility to manage their investments themselves, while the latter is only tasked with increasing the market value of the company (Brealey et al., 2017).

In the literature there are also contrasting ideas to those just mentioned, for example, Bartlett (2015) states that by using the SWM principle, directors do not maximise the company's value as the main objective. Maximising company value is normally beneficial to all stakeholders, whereas

Bartlett (2015) affirms that SWM principle does not consider the rights of the other stakeholders, such as creditors, employees, and customers. However, it is common among scholars to consider shareholder wealth maximisation as a default rule. Bainbridge (2003) describes the SWM principle as a 'majoritarian default' rule for directors' fiduciary duties. A broader view is offered by Macey (2008) who states that since the company is an organisation with a nexus of contracts, where all the rights in the contracts must be respected, the default rule of maximising shareholder wealth is only one of the company's obligations and the obligations to all other constituencies, i.e. workers, suppliers, and customers, should not be disregarded. This point of view is part of an open debate concerning the goal of the company, that of maximising the wealth of shareholders or stakeholders. However, this is outside the scope of this project which focuses on the creation and maximisation of shareholder wealth.

Measuring Shareholder Wealth

Shareholder wealth can be measured through different metrics, with market value, cash-flow model, share price and using ratios such as ROE and ROCE (Venugopal et al., 2019).

The market value method focuses on the share price of listed companies in stock markets (Windsor, 2010). Market value is calculated as follows:

$$MV = V \times S$$

Where, MV = market value,

V = value of each share in the market,

S = number of shares outstanding.

From this equation, it can be understood that the market value of the company is directly proportional to the value of the shares in the market. Assuming that the number of shares remains constant if the value of the shares increases, then the market value also increases. However, when assessing market value, one must be aware that the prices of shares may not reflect the real value

because it is influenced by the risk attitude of investors, which leads to high volatility of shares due to this speculative purpose.

An investee's wealth can also be measured through the company's cash-flow model, considering free cash flow as net operating cash flow minus capital expenditures. One method to link market value and cash flow is earnings per share (EPS), which is calculated as follows:

$$EPS = \frac{\text{Net Income} - \text{Dividends on Preferred Stock}}{\text{Average Outstanding Shares}}$$

Where, $\text{Net Income} = \text{Sales revenue} - \text{Total Expenses}$,

$\text{Dividends on Preferred Stock} =$ Cash dividend paid out to the preferred shareholders,

$\text{Average Outstanding Shares} =$ Number of shares calculated after adjusting for the changes in the share capital over a reporting period (CFI, 2022).

EPS represents a portion of the company's earnings, after taxes and dividends, which is allocated to each share of common stock (Islam et al., 2014). Consequently, the higher the EPS, when compared to the prior year's EPS, the greater the value creation for shareholders. To increase wealth, managers must growth EPS (Windsor, 2010).

The market value can be understood as the present value of future profits or expected future cash flows, which are discounted over time at the rate required by the shareholders and added up from period 1 to infinity (Windsor, 2010). This is calculated in the following way:

$$MV = \sum_{t=1}^{\infty} \Pi_t / (1 + r_e)^t$$

Where, $MV =$ market value,

$\Pi_t =$ accrual profits or expected future cash flows,

$r_e =$ rate of return required by shareholders.

Finally, the more traditionally accounting-related ratios such as the Return on Equity (ROE) and Return on Capital Employed (ROCE) are tools that are used to calculate value creation. These are calculated as follows:

$$ROE = \frac{\textit{Net Income}}{\textit{Shareholders' Equity}}$$

$$ROCE = \frac{\textit{Operating Profit}}{\textit{Equity Shareholders' Funds}}$$

These ratios are often criticised for being subject to manipulation, ignoring the cost of capital and not taking the free cash flow into account, and are therefore not the most suitable tools for measuring value creation for shareholders (Venugopal et al., 2019)

Agency Theory

Agency theory explains the problems that arise from the separation within the company between owners and managers and focuses on how these problems can be reduced (Panda et al., 2017). There are several reasons why agency problems arise, the most common being the separation of ownership from control in joint-stock companies, where the former is owned by individuals or groups in the form of stocks and these shareholders (principals) delegate the management of the company to managers (agents) (Jensen et al., 1976; Ross, 1973). The problem arising from this separation of duties lies in the fact that managers are not always motivated to act in the interests of the owners and perform for their personal goals. Ross et al. (2002) state that the 'primary' goal of shareholder value creation is “a little vague”, as managers tend to maximise corporate wealth, under their control, rather than shareholder wealth. Corporate wealth maximisation refers to the objective of maximising the wealth of all the stakeholders of the company and not only that of the shareholders. Consequently, this maximisation goes beyond the classic measurement of corporate wealth related to share valuation but also considers other variants such as the knowledge and skills

of “employees in technology, manufacturing process, marketing, and administration” (Kroeger, 1984).

Numerous researchers have analysed the main solutions for solving agency problems and the most accredited solutions are to offer managers shares, through remuneration, this increases the affiliation and willingness to work in order to increase the value of the shares in the stock market, indirectly favouring the wealth of shareholders. This makes managers operate as if they were owners of the company, improving company performance and reducing agency problems (Jensen et al., 1976). Similarly, Core et al. (1999) found the inadequate remuneration of managers as a cause of the problems and argue that a periodic review of the remuneration policy is an incentive to improve corporate performance. Finally, a further solution to agency problems is the distribution of dividends (Park, 2009), which decreases the internal funds of the company, forcing managers to seek additional external funds to finance themselves or collaborate with the owners to request additional funds. Furthermore, dividend payments resolve conflicts between inside and outside shareholders (Meyers, 2000). Inside shareholders are the managers who have executive voting rights and outside shareholders are all the other investors that have no executive voting rights (Jensen et al., 1976).

Windsor (2010) questions the SWM principle and as a key question asks what the ultimate goal of business is. An answer to this question can be found by analysing the financial economics theory according to which the goal of any business is the maximisation of market value. This can also be seen as the maximisation of social welfare, using a utilitarian view, i.e., where "everyone should gain over the long run from freer markets" (Windsor, 2010).

Dividend Policy

Dividend policy is the determination of the proportion of profits that are paid to shareholders (Arnold et al., 2019). Periodically, this policy is reviewed and adjusted according to the company's needs and financial situation. The dividend policy is an instrument that enables value creation for

shareholders over the years. An important factor to consider is whether the company's dividend policy has progressively increased over the years, or decreased, or whether the dividend payment is volatile and based solely on the positive or negative financial situation.

Miller and Modigliani developed a theory in 1961 where they explain that the dividend policy is irrelevant to share value. This statement is based on numerous assumptions such as the absence of taxes and transaction costs, that all investors have the same interest rate and information in the market and finally that they are indifferent between having dividends or a capital gain. This indifference is based on the assumption that this theory considers the distribution of dividends as irrelevant for the valuation of the company value. Therefore, for shareholders, the maximisation of the company and thus of their welfare depends on factors other than dividends, such as forecasts of future earnings. Furthermore, in the papers by Miller and Modigliani (1961) and Linter (1956), the possibility of using share buybacks instead of dividend payments to shareholders is never considered, because at the time it was a rare practice among companies (Brav et al., 2005).

Preinreich (1932) and Sage (1937) provided the first explanation of the residual dividend policy. Both developed the idea, but none named it residual policy (Smith, 2011). This is based on the principle that retained earnings are a more convenient source of finance than debt and equity because they do not require transaction costs. In the situation where the company has cash profit that is not reinvested in projects with NPV greater than zero, this surplus cash can be returned to the shareholders in the form of a dividend. Under these circumstances, this dividend policy creates important value for shareholders and benefits the company because reinvesting cash in a project with a return below the required return on equity capital means destroying shareholder wealth (Arnold et al. 2019).

Within the dividend policy literature, the clientele effect has also been analysed, i.e., there are different types of shareholders where some prefer dividends, others prefer capital growth and good growth potential, some require high proportions of earnings while others prefer a low pay-

out. The clientele effect seems to be the opposite of the residual dividend policy, but in the former case stability and consistency are required to attract a particular type of clientele, while in the latter case dividends depend on reinvestment opportunities (Arnold et al. 2019). Furthermore, the taxation of dividends and capital gains is a key element for which shareholders decide whether to invest more in dividend-paying companies or opportunities for stock growth. Studies by Elton and Gruber (1970) have shown that there is a statistical relationship between the dividend policies of companies and the tax bracket of shareholders, where typically a higher income tax rate is associated with low-dividend shares and a low tax rate with high dividend shares.

Contrary to the hypothesis of Allen et al. (2000), corporate executives do not focus on using dividends to attract investment from institutions, but only from individual investors. This was demonstrated in a study with 384 financial executives, which showed that the majority do not believe that dividend payments are an essential factor for institutions' decisions on the company (Brav et al., 2005).

Finally, the dividend policy can be used as a tool to inform shareholders and reduce the existing information asymmetries between the inside and the outside of the company. This is done through signals, in the form of information and communications concerning the dividends that will be paid. An increase in the dividend is seen as a positive factor that is also used by managers to increase the perception of the company in the markets and boost the value of shares. A reduction in revenues is not always linked to a reduction in dividends because a decrease in the dividend is synonymous with a difficult financial situation that negatively affects the value of shares and the loss of value for shareholders (Bar-Yosef et al., 2009).

During the COVID-19 pandemic, many companies were forced to change their dividend policy, either by significantly reducing dividend rates or by not paying a dividend at all (Ali, 2021). However, a study of 8889 companies in highly industrialised countries showed that most companies decided to keep the dividend constant or increase the rate in order to demonstrate that

they were responding to the crisis with a stable dividend policy and signalling their financial prospects (Ali, 2021).

Capital Structure

The term capital structure refers to the combination of debt and equity that the company uses to finance itself. By changing the gearing of the company and thus increasing debt relative to equity, shareholder return can be increased (Arnold et al., 2019).

The optimal capital structure is one where it is possible to minimise the cost of capital through the right mix of debt and equity while maximising market value. This is measured through the weighted average cost of capital (WACC) which is calculated as follows:

$$WACC = C_e \times \frac{E}{E + D} + C_d \times \frac{D}{D + E} \times (1 - T)$$

Where, C_e = Cost of equity,

C_d = Cost of debt,

E = Equity,

D = Debt,

T = Taxation.

Theoretically, by minimising WACC through cheaper financing resources, shareholder wealth can be increased using WACC as a rate to discount future cash flows and this produces a higher present value. Debt financing is less expensive than equity financing because lenders consider debt less risky, especially because in the event of liquidation debt holders have a priority claim on repayment over shareholders (Arnold et al., 2019).

The literature has developed theories concerning the structure of the capital such as pecking order theory and trade-off theory. These two theories can be considered opposites of each other because the former states that companies do not have a defined capital structure, unlike the latter

(Serrasqueiro et al., 2012). First Donaldson (1961) and later Myers and Majluf (1984) proposed the pecking order theory according to which companies choose in a logical order the method of financing themselves, from the least risky to the riskiest choice. The first option is retained earnings if the company has any available; the next choice is through debt, through capital markets and as a last alternative through equity. Theoretically, the choice to finance through equity only arises in the situation where debt is expensive, for example, if the company is faced with the costs of financial distress where the debt-to-equity ratio is high (Myers, 2001). The key points of Myers and Majluf's pecking order theory are that companies prefer to finance themselves internally, through retained earnings, over external finance; dividends are 'sticky', i.e., the reduction of dividend policy to finance investments is not considered; finally, companies in their choice of financing always operate by following the safer route concerning risk (Myers, 2001).

In contrast, the trade-off theory of Kraus and Litzenberger (1973) states that companies must reach a debt level that "maximises the benefits of debt tax-shields and minimises the possibility of bankruptcy" (Serrasqueiro et al., 2012). The debt target to be achieved, measured in debt level or ratio, is gradually adjusted by companies even though it cannot be measured directly but only through simple proxies, such as the average debt ratio over a period of time (Myers, 2001).

The capital structure can be varied by managers who can adjust it according to their needs to increase shareholder wealth. This can be done both directly through the choice of internal and external financing, but also indirectly through the modification of corporate governance. A study by Butt (2019) showed that there is a positive relationship between a good leverage ratio of good corporate governance firms and an increase in profits, which leads to the maximisation of shareholder wealth (Butt, 2019).

Conclusion

From the literature review, we can state that the creation of shareholder wealth and its maximisation can be done in different ways. It can be measured through the value of the company's shares, the market value, the cash-flow model and traditional accounting measurements. In addition, the creation of shareholder wealth is also visible through the payment of dividends to shareholders in relation to the number of shares held. Furthermore, the maximisation of shareholder value is evident through the progressive dividend policy. In this case, one should be aware that companies tend to maintain a constant or increasing dividend policy even in difficult financial situations, as a signal to continue to increase the value of shares in the stock market. Finally, the creation of shareholder wealth can also occur through capital structure, with which managers can minimise the cost of capital and maximise the market value of the company. In analysing these instruments used by companies to maximise shareholder wealth, it must be considered that there may be difficulties such as agency costs, due to the conflict that arises between different shareholders and stakeholders inside and outside the company. Furthermore, there may be uncertainties in assessing the dividend policy and capital structure of the company as there are no exact measures to understand whether the company is operating in the best way for shareholders. However, the analysis of Burberry's performance is still relevant in determining the creation of shareholder wealth over the past five years.

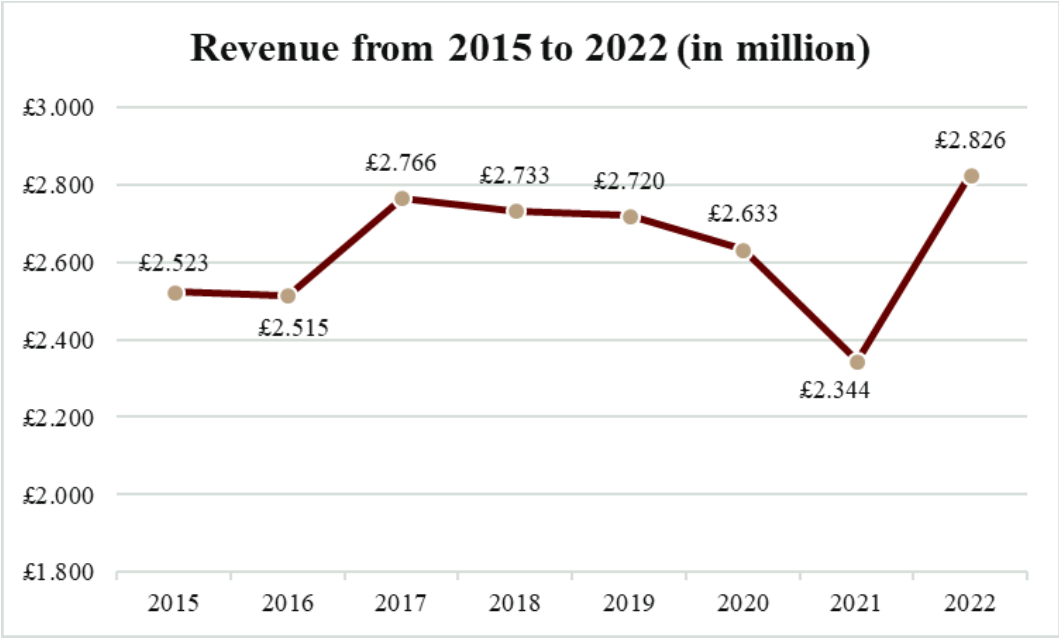
Company and Industry Overview

This chapter provides an overview of Burberry's strategy and shareholders. In addition, the industry, and the sector in which it operates are defined, linking Burberry to its main competitors worldwide and in the UK.

Company Overview

Burberry operates in the luxury goods market, selling clothes, accessories, and cosmetics (Burberry, 2022). Headquartered in London, UK, Burberry has been listed on the London Stock Exchange since December 2005. Over the years, the most successful products continue to be the Trench Coat and the Cashmere Scarf, both products featuring Burberry's typical tartan pattern. 2017/2018 was a decisive year in improving the company's strategy and performance because Marco Gobetti was appointed as the new CEO and Julie Brown was selected as COO and CFO (Burberry, 2018). This allowed Burberry to modernise its strategy by focusing on transformation and growth while improving the customer experience (Burberry, 2018) and focusing on greater product exclusivity (Statista, 2021). As can be seen from Figure 1, significant growth in revenues was noted starting in 2017 that remained almost constant until 2019. Despite the new strategy and the introduction of the new logo that brought considerable modernisation, revenues decreased in 2020 and 2021 due to the COVID-19 pandemic, because the stores were closed for many months. In addition to the store closures, the negative trend of international travel of tourists and potential customers contributed to the decrease in revenue, especially in Europe with a 44% decline in sales (Burberry, 2022). 2020 and 2021 reflected a difficult situation, which, however, was superbly overcome in 2022, with revenues increasing by 20% compared to the previous year.

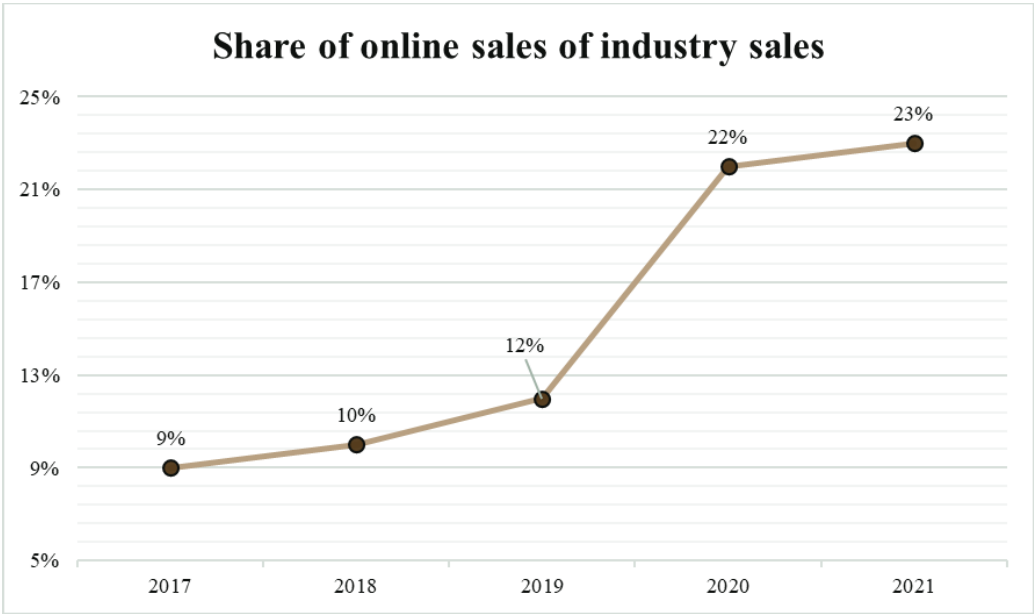
Figure 1.



Source: Burberry's Annual Reports.

Store closures in 2020 and 2021 led to a decrease in total revenue but contributed to a doubling of online sales. Figure 2, which represents the percentage of online sales in relation to total sales, shows that from 2017 to 2019, online sales grew slowly, while they surged in 2020. Specifically, in 2020, sales increased by 80% on Burberry's official website compared to the previous year and especially in China (Burberry, 2021). Although 2020 was a negative year for Burberry's revenues, a positive element can be seen in the increase in online sales, with online sales expected to reach 30% of total sales in 2025 (Burberry, 2022).

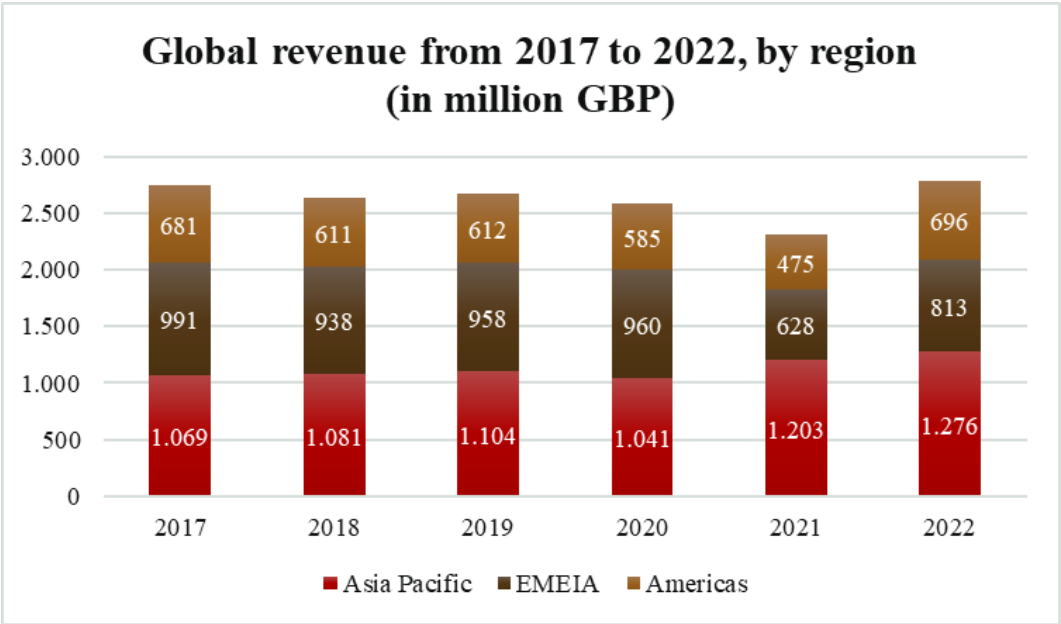
Figure 2.



Source: Burberry's Annual Report.

Most of Burberry's revenues come from the Asia Pacific market, followed by Europe, the Middle East and Africa region and finally the Americas. As shown in Figure 3, the fastest growing market is the Asia Pacific region, where an increase in revenue was also recorded during the COVID-19 period.

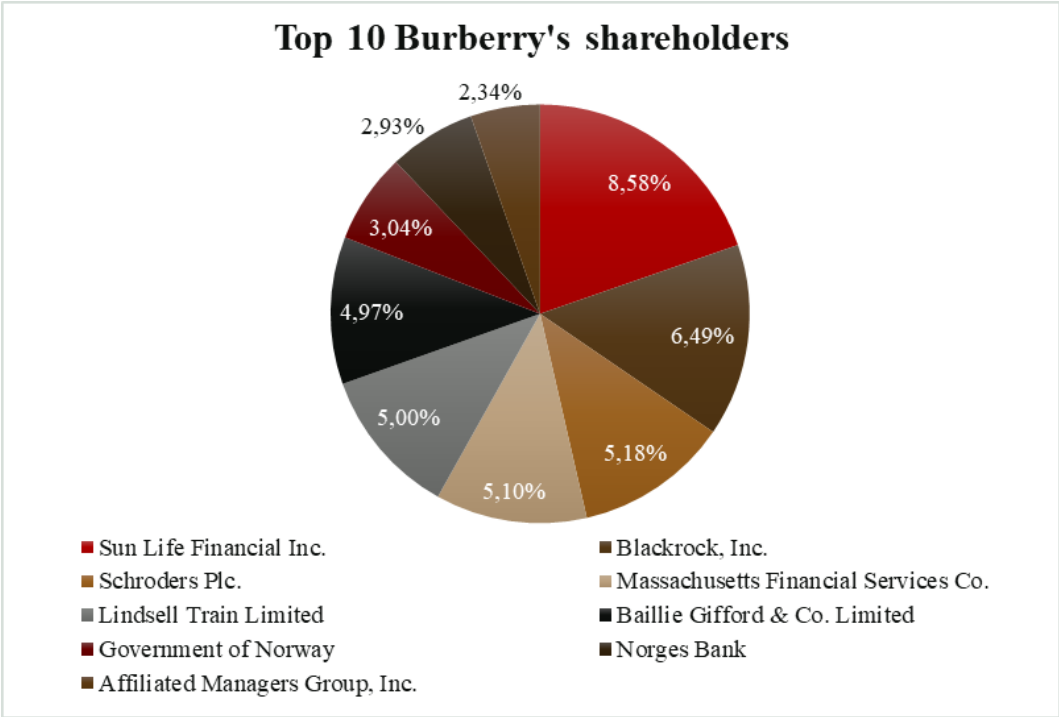
Figure 3.



Source: Statista.

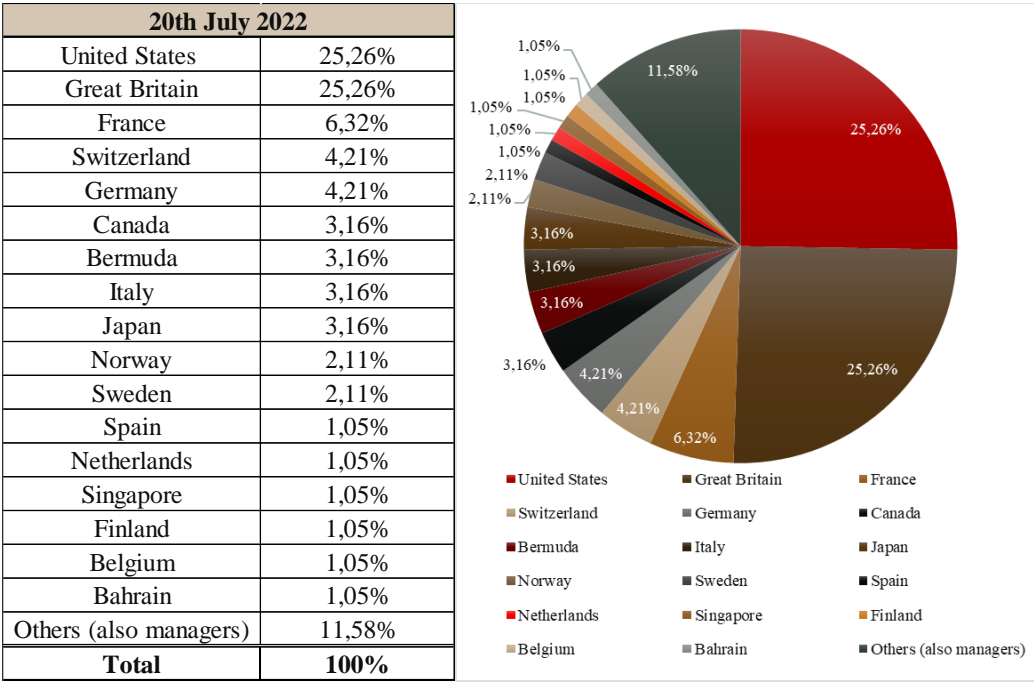
Figure 4 identifies Burberry's top 10 shareholders in order of ownership, constituting 43% of ownership. These are mainly banks and insurance companies, predominantly from Great Britain and the United States. These two countries house the majority of Burberry's shareholders, as per Figure 5. The heading 'Other' in Figure 5 includes more than one hundred different shareholders, whose names are not known, and ten managers with a small percentage of ownership.

Figure 4.



Source: FAME.

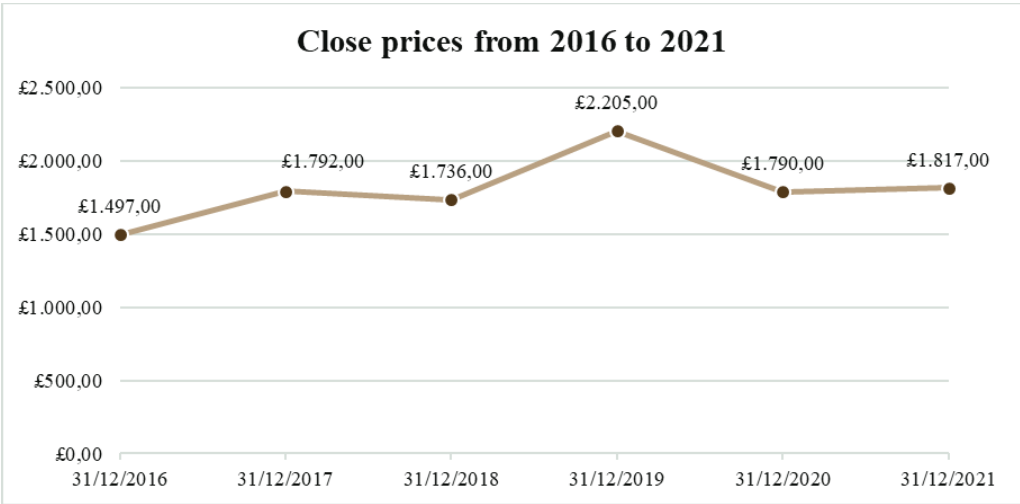
Figure 5.



Source: FAME.

In addition to being listed on the London Stock Exchange, Burberry is registered in eight other stock exchanges, such as in Berne, Berlin, Düsseldorf, Frankfurt, Hamburg, Hannover, München and Stuttgart (Burberry, 2022). Burberry is also present in four stock indices: FTSE 100 – United Kingdom, FTSE 350 – United Kingdom, FTSE all-share – United Kingdom and the STOXX EUROPE 600 Index – Germany (FAME, 2022). Figure 6 shows the closing prices of Burberry's shares on the London Stock Exchange from 31/12/2016 to 31/12/2021. There was a noticeable increase in the share price from 2016 to 2017, followed by a 27% increase in 2019. In 2020 and 2021, Burberry's share prices fell slightly, probably due to the difficult economic situation the company faced during that period.

Figure 6.

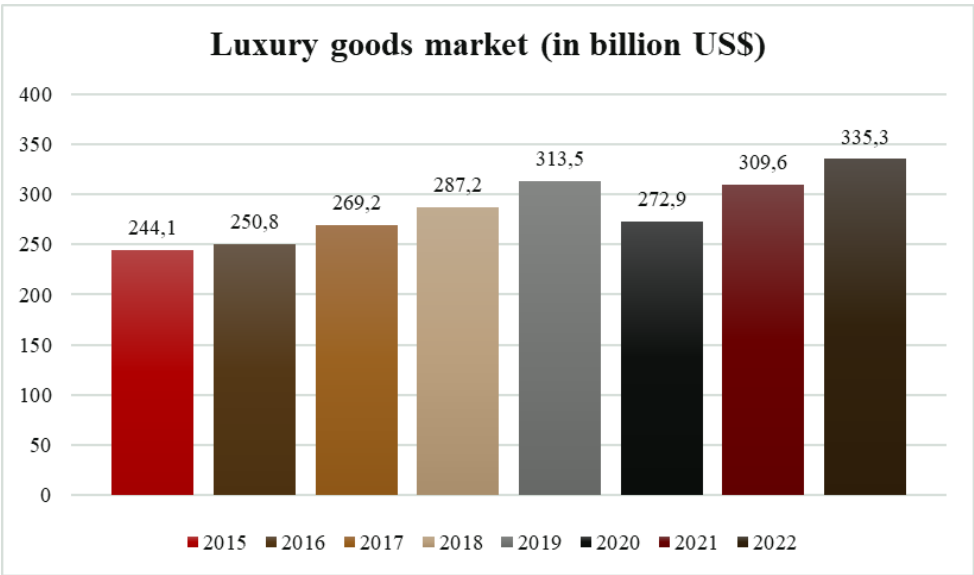


Source: Burberry.

Industry Overview

Burberry is a company that operates in the luxury goods industry. This market is extremely broad as all products related to clothing, accessories such as bags and glasses, and footwear are considered within this industry. This industry is growing and has seen its sales increase by approximately 15% from 2017 to 2021, as shown in Figure 7. Statista (2021) forecasts that this market could reach \$382.6 billion in 2025 with an annual growth rate of 5.4% (Statista, 2021).

Figure 7.

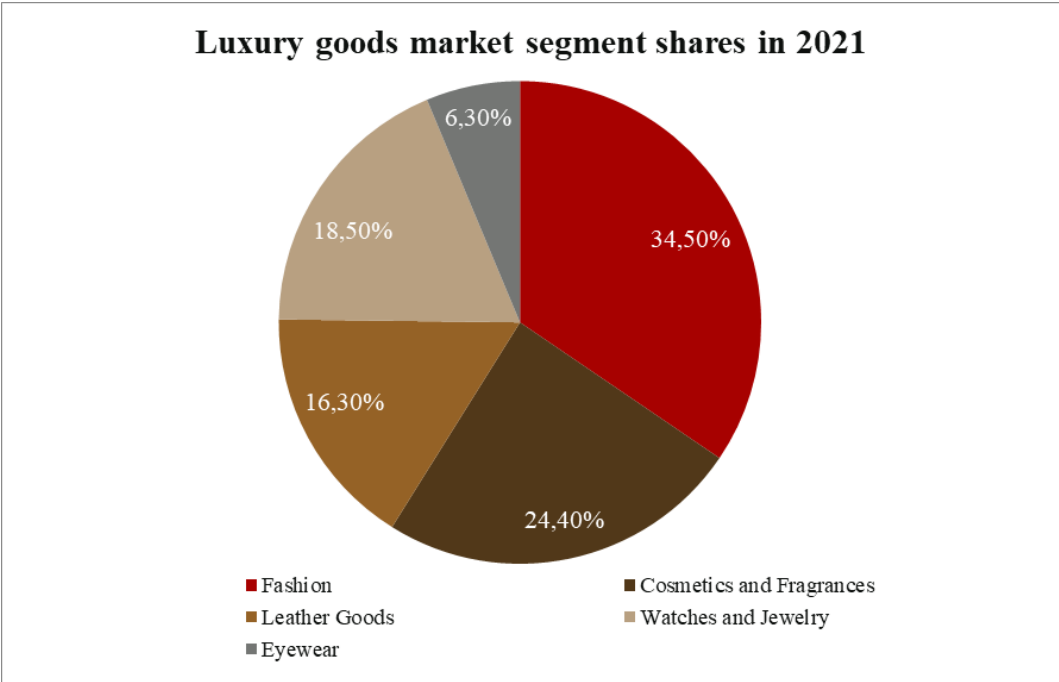


Source: Statista.

As can be seen from Figure 7, in 2020 the industry registered a deep fall in sales across the market due to the COVID-19 pandemic. In general, the luxury market is always evolving, especially due to online sales that have forced many industry players to adapt to market needs (Statista, 2021). For example, Burberry with the new strategy implemented in 2017, despite growing revenues, decided to close many stores, and also to make the brand more exclusive (Burberry, 2022).

This sector is divided into five categories: luxury leather goods, luxury watches and jewellery, luxury fashion, luxury eyewear and prestige cosmetics and fragrances (Statista, 2021). It can be seen from Figure 8, that the predominant market share is the fashion segment with 34.5%, the other segments have a lower share with 24.4% cosmetics and fragrances, watches and jewellery with 18.5%, leather goods with 16.3% and eyewear with 6.3%.

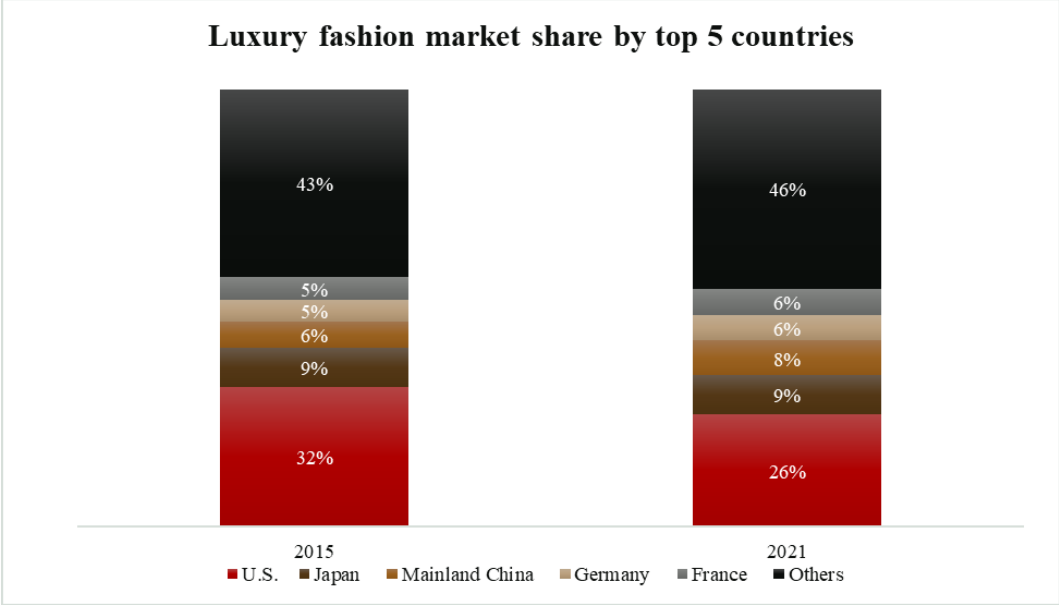
Figure 8.



Source: Statista.

The countries with the largest sales are the United States, Japan, China, Germany and France, and these account for more than 50% of the fashion market, as shown in figure 9.

Figure 9.



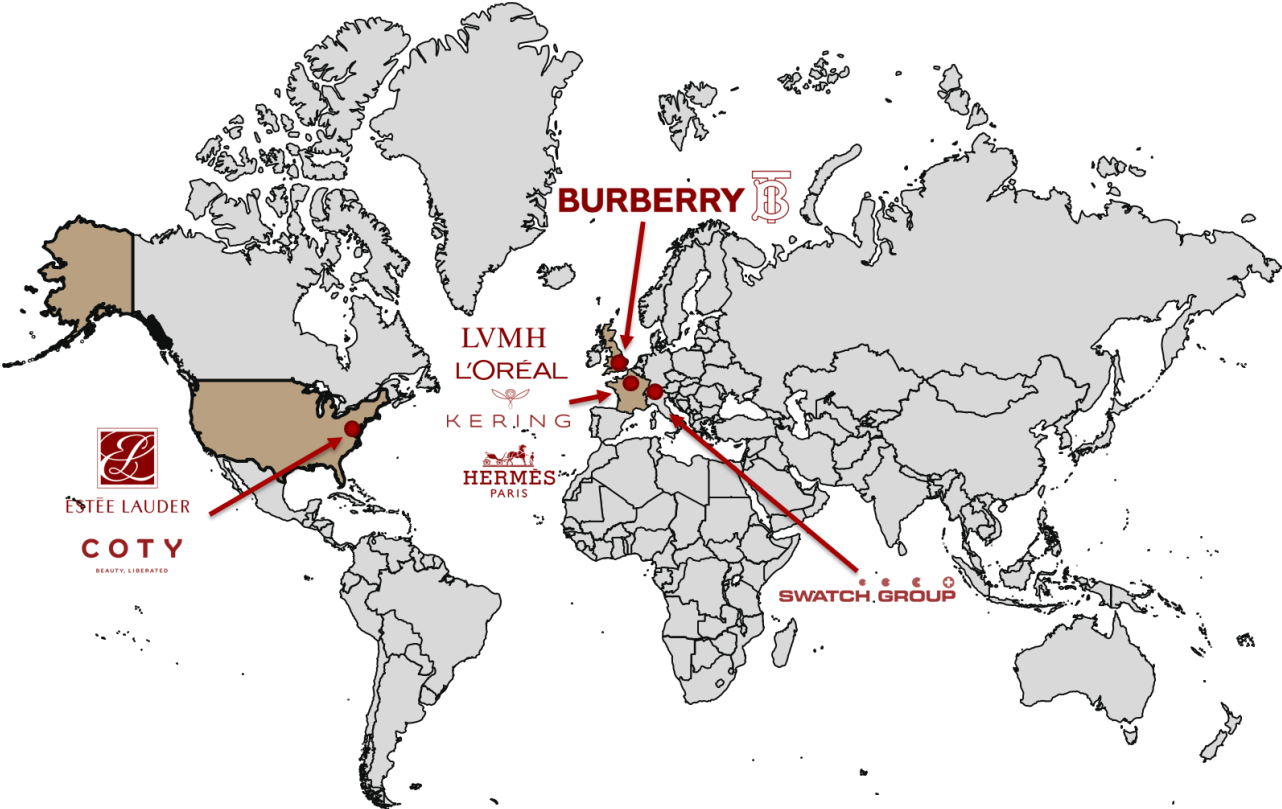
Source: Statista.

The major players in the global luxury goods industry are listed in Figure 10, ordered by the size of revenues in 2021. Burberry's competitors and market leaders are LVMH, L'Oréal and Kering, as they focus their product offerings on the fashion, watches and jewellery and cosmetics categories. The difference in terms of revenue is due to the size of groups such as LVMH, which has acquired more than 70 brands through numerous M&A deals and also operates as the market leader in wines and spirits (Statista, 2021). Similarly, Kering operates in the luxury fashion market generating \$16 billion through the brands it owns such as Gucci, Bottega Veneta, Balenciaga, Saint Laurent, and Alexander McQueen.

Figure 10.

The major players in the global luxury goods industry

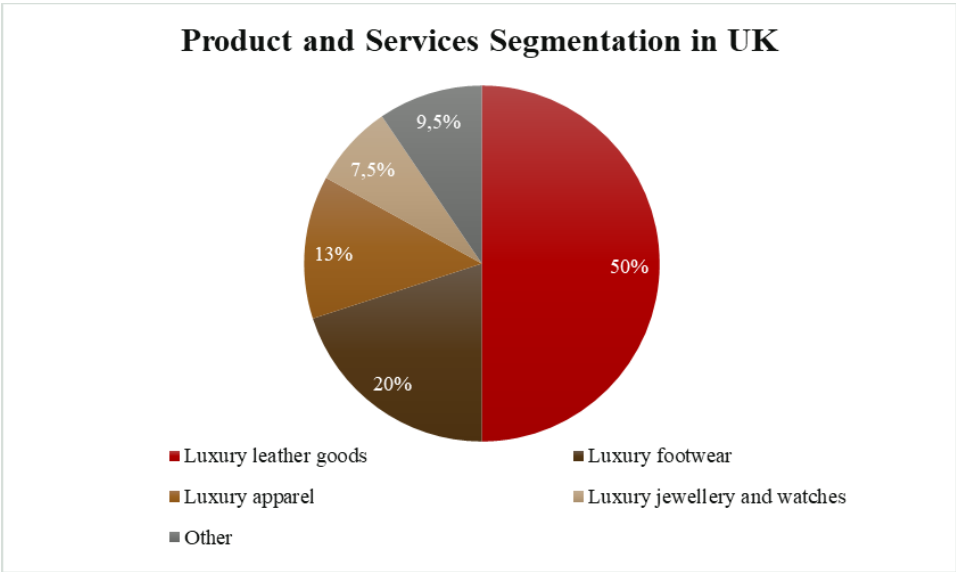
Company	Headquarter	Revenue in billion US\$ in 2021
LVMH	Paris, France	54,8
L'Oréal	Paris, France	34,4
Kering	Paris, France	16,1
Estée Lauder	New York, U.S.	14,3
Hermès	Paris, France	7,6
Swatch Group	Biel, Switzerland	6,3
Coty	New York, U.S.	4,7
Burberry	London, UK	3,2
Total		141,4



Source: Statista.

If we consider only the luxury goods market in Great Britain, we find a slightly different confirmation to what has been said so far. In detail, we see from Figure 11 that the products present are 50% luxury leather goods, 20% luxury footwear, 13% apparel and only 7.5% jewellery and watches (Mak, 2021).

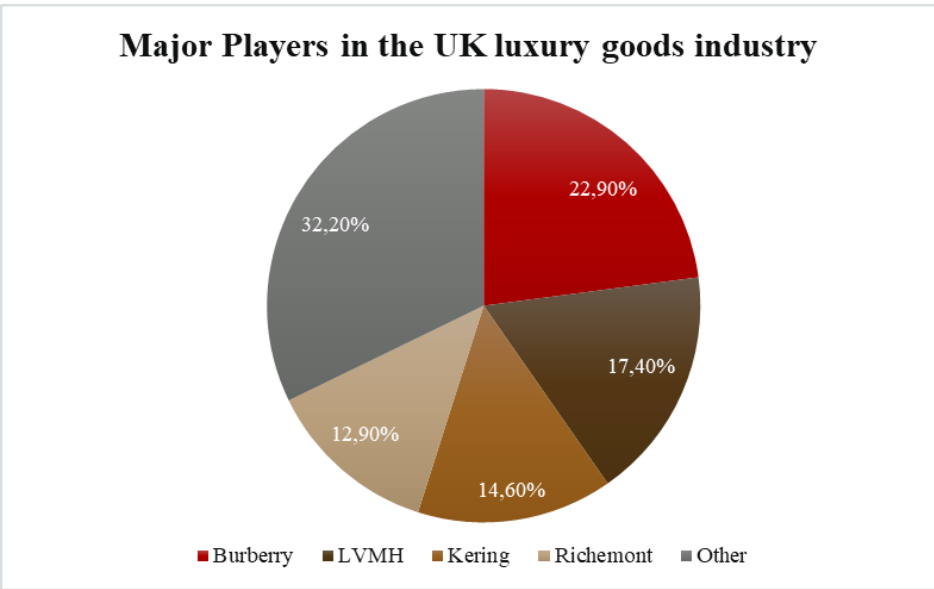
Figure 11.



Source: Mak (2021).

In the luxury goods market in Great Britain, the composition of the market share is also different, where the concentration of the industry is moderate (Mak, 2021) and the largest companies count for 67.8% of the market share (figure recorded in August 2021). The market leader is Burberry with 22.9% of the market, followed by LVMH, Kering, and Richemont, as shown in Figure 12 (Mak, 2021).

Figure 12.



Source: Mak (2021).

Shareholder Wealth Creation

In this chapter, various aspects of shareholder value creation are considered, through the analysis of data on stock price, financial performance with its ratios, dividends, and capital structure. Data and information are retrieved from Bloomberg Terminal, Burberry's financial statements and databases such as Fame and Amadeus.

Share Price Analysis

From Figure 13 we can see that Burberry's share price from 2017 to 2021 was subject to high volatility. The price of a share in January 2017 was £1500 and in December 2021 was £1817.50. This represents a shareholder value creation of 21%, assuming an investor bought the shares in early January 2017 and sold them at the end of December 2021. The price growth over the years has not been linear. Looking at the period 2017-2018, share prices have slowly increased but remained constant in the range of £1600-£1800 per share. In February 2018, there was a fall in the share price to £1500 due to the news that the UK market was no longer the main sales target for Burberry, due to fewer tourists in the UK because of Brexit (Russell, 2018). Despite this event, the share value soared to £2200 in August 2018. This sudden increase of 46% is justified by the fact that in 2018 Burberry changed its chief creative by electing Riccardo Tisci, which immediately had a strong impact on Burberry's image (Russell, 2018). Indeed, the logo was changed for the first time in 20 years, and the Chairman also changed from Sir John Peace to Gerry Murphy on 12 July 2018. In addition, the announcement of a 3% dividend increase also facilitated this rise. In July 2019, the share price reached an all-time high of £2345, a moment when Burberry reached the apex of the strategic transformation that began in 2017 (Dines, 2019). The transformation was aimed at a better positioning of the brand in the world of luxury, through a review of the logo, the products offered and an enhancement of customer experience (Burberry, 2022).

The peak in the share price for shareholders was abruptly cut short at the end of 2019 by the COVID-19 pandemic. In eight months, from December 2019 to July 2020, the value per share plummeted by 43%, because of the closure of stores, especially in China where 24 of 64 stores were temporarily closed, and the remaining ones remained open at reduced hours (Dines, 2020). The main reason for this slump is due to lower revenues from Asian tourists in Europe, who have traditionally been an important driver of Burberry's sales (Dines, 2020). In the second half of 2020, the price rose steadily due to a recovery of sales in Asia Pacific, reaching high price levels again, of around £2200. This growth was also due to a positive investor reaction following the announcement of the reintroduction of the dividend, which had been cancelled in 2020 (Robinson, 2021).

Figure 13.

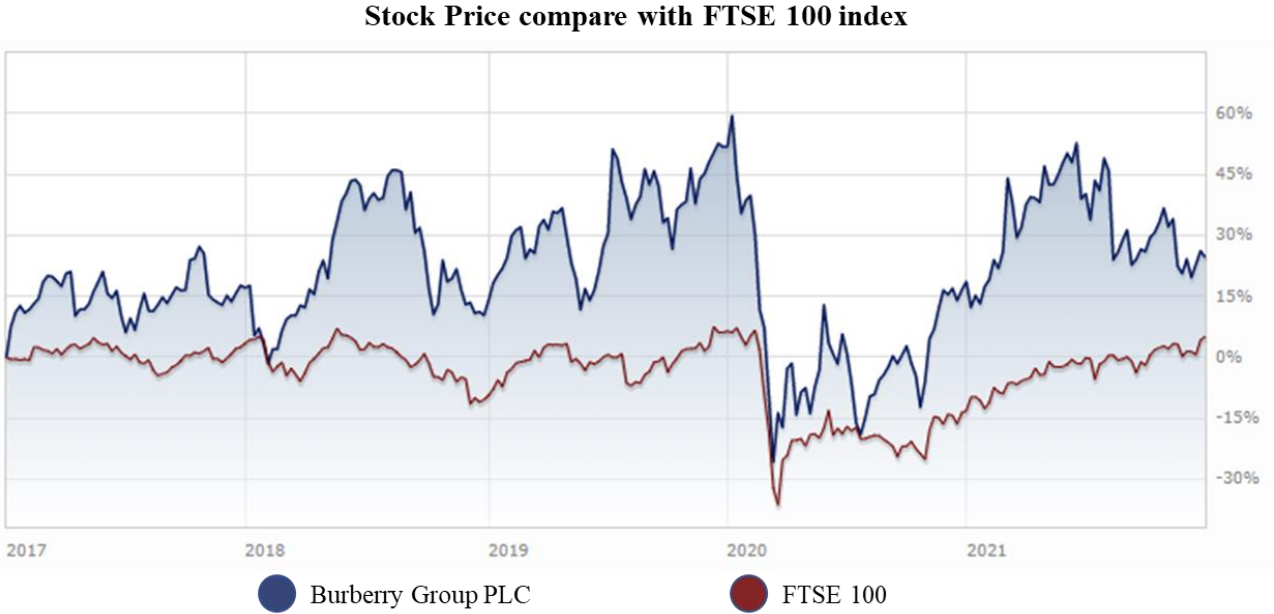


Source: Bloomberg.

Figure 14 shows that Burberry's shares outperformed the FTSE 100 index. This indicates that, when considering wealth creation through share price growth, Burberry was able to create more value than an index representing the top one hundred companies by capitalisation listed on the

London Stock Exchange. Considering the period 2017-2021, Burberry created more than 20% more shareholder value than the FTSE 100 benchmark.

Figure 14.



Source: Morningstar.

Investment and Profitability Analysis

For investment and profitability analysis considering the creation of value for shareholders, the earnings yield, ROE, and ROCE have been used.

Earnings yield is an index that measures the "percentage of a company's earnings per share" (Mitchell, 2022). It is calculated as follows:

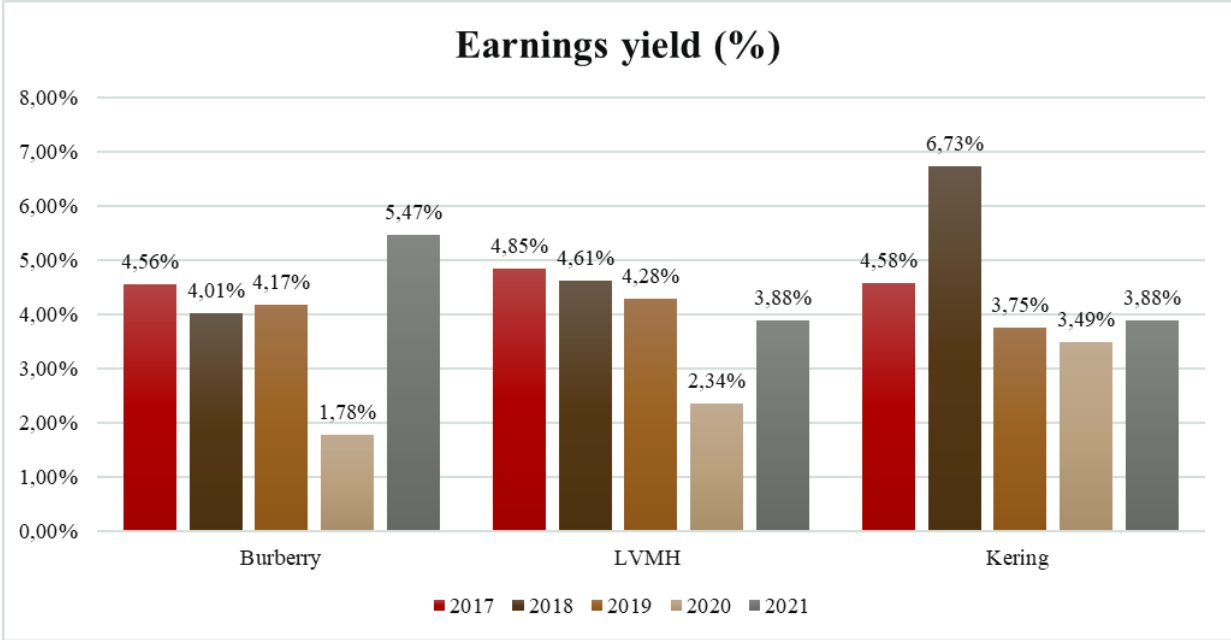
$$Earnings\ yield = \frac{EPS}{Stock\ Price}$$

Figure 15 shows the earnings yield trends between 2017 and 2021 for Burberry and its two main competitors, LVMH and Kering. Burberry performed bearishly but in line with LVMH, but experienced a deep rate drop in 2020 as EPS fell 63.69% compared to 2019. However, in

2021, EPS rose by 212%, synonymous with a great recovery in the equity markets for investors, bringing the earnings yield to 5.47%, which is higher than all other competitors considered.

Considering the value of the rate from 2017 to 2021, Burberry is the only company that increased the value of the earnings yield, thus creating more wealth for its shareholders than LVMH and Kering.

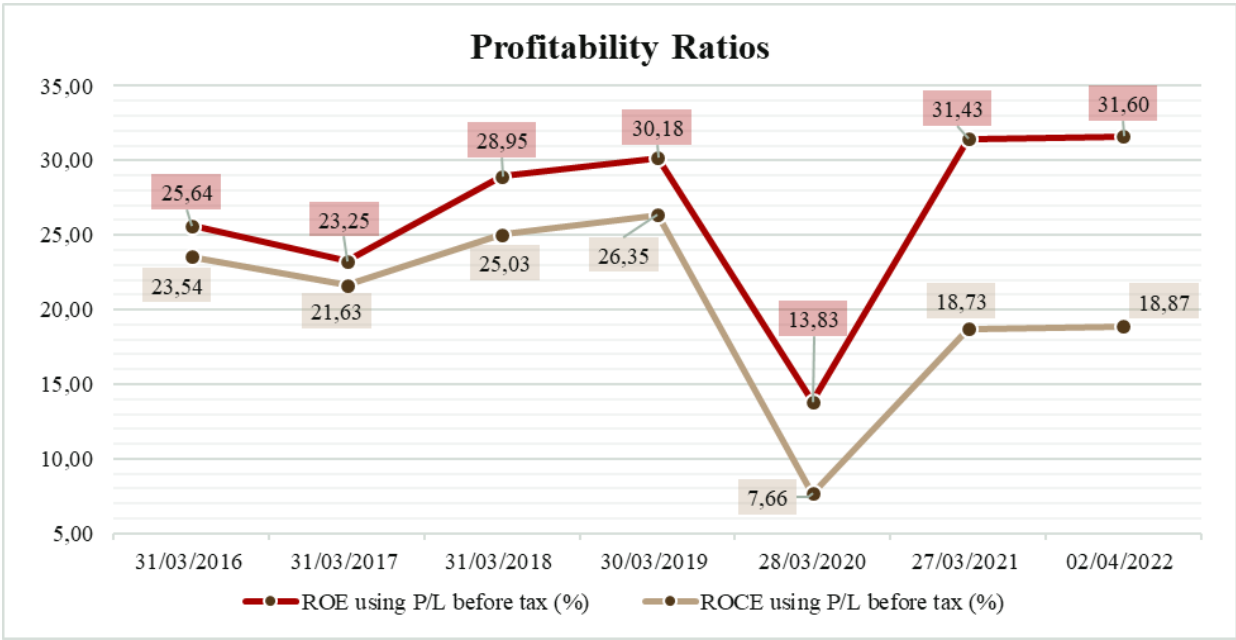
Figure 15.



Source: Amadeus.

From Figure 16, we can see the development of profitability ratios, which are used to analyse the creation of wealth for shareholders. As explained earlier in the literature review, ROE and ROCE are two ratios used to assess financial performance. Both ratios have a similar trend from 2017 to 2020, with a steady increase until 2019 and a big drop in 2020, caused by the decrease in sales and revenues. The subsequent period represents a recovery for both ratios, but in the case of ROE, Burberry managed to return to pre-COVID values (31.43% in 2021). Whereas the ROCE, although still growing by 144% compared to 2019, did not return to pre-COVID values. Considering the difficult economic situation, we can in any case state that, as far as ROE is concerned, Burberry has created value for shareholders, growing by 45% from 2017 to 2021.

Figure 16.

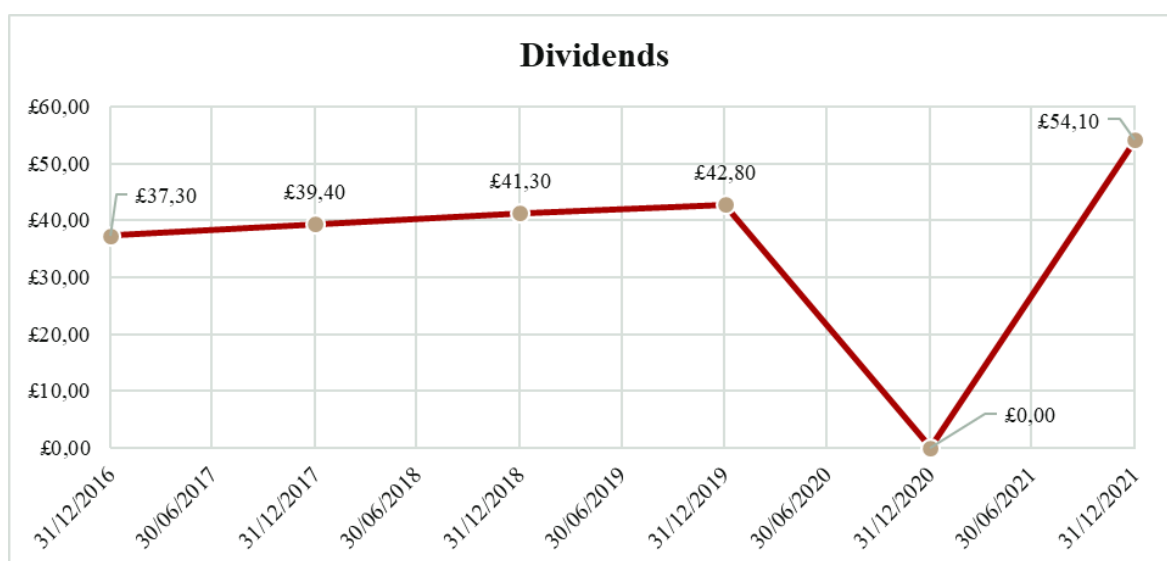


Source: Bloomberg.

Dividend Analysis

Another method of assessing the creation of wealth for shareholders is the dividend analysis. For shareholders, dividends represent an increase in wealth as a result of their investment in the company. Figure 17 shows the development of dividends from 2016 to 2021. Without considering the year 2020, the trend was one of constant growth, in line with Burberry's progressive dividend policy (Burberry, 2021). An exceptional situation occurred in 2020 when the management decided not to release any dividend for 2020 to protect liquidity and to support long-term investments (Burberry, 2020). However, from Figure 18, we see that the final dividend for the year 2020 was released on 13 May 2021, given the rapid recovery in the markets of Asia and North America that allowed for strong operating performance and cost control (Burberry 2021). The typical structure of Burberry's dividend policy is to pay an interim and a final dividend, every six months, as shown in Figure 18. Burberry has created value for its shareholders over the period 2016-2021 through a progressive increase in dividends, and a 45% growth from £37.30 in 2016 to £54.10 in 2021.

Figure 17.



Source: Bloomberg.

Figure 18.

Dividends		
Date	Amount	Type
11/11/2021	£11,60	Interim
13/05/2021	£42,50	Final
12/11/2020	£0,00	Omitted
22/05/2020	£0,00	Omitted
22/11/2019	£11,30	Interim
14/05/2019	£31,50	Final
08/11/2018	£11,00	Interim
16/05/2018	£30,30	Final
09/11/2017	£11,00	Interim
18/05/2017	£28,40	Final
09/11/2016	£10,50	Interim
18/05/2016	£26,80	Final

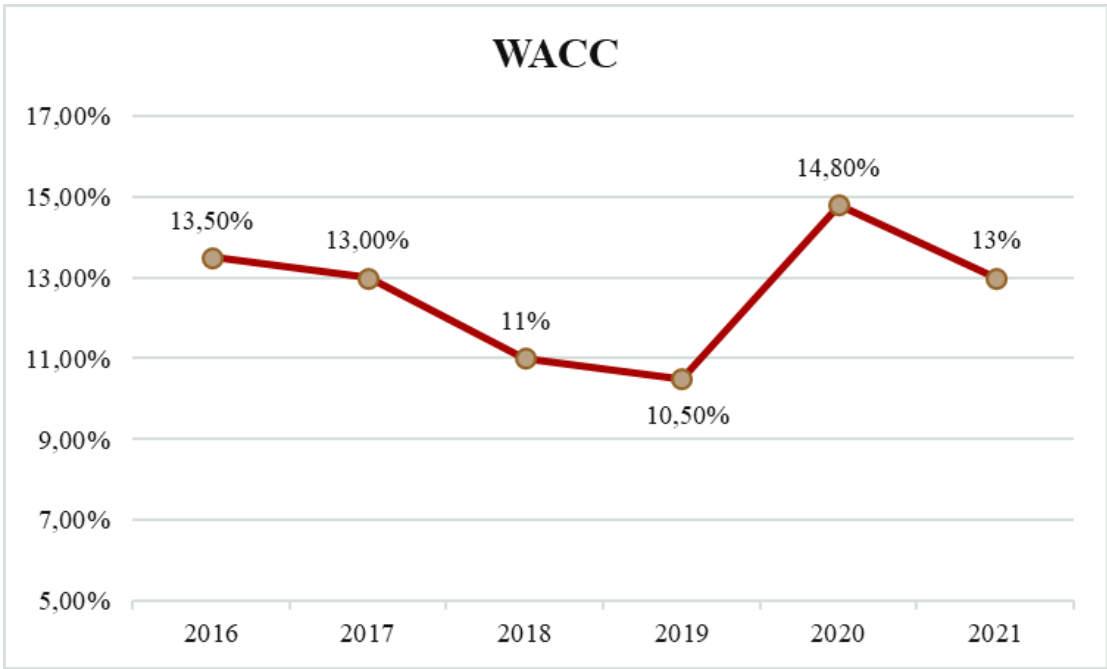
Source: Bloomberg.

Capital Structure Analysis

The ultimate analysis of wealth creation for Burberry's shareholders is through the weighted average cost of capital (WACC). The WACC is used as a rate related to the average cost of capital that Burberry pays to its shareholders, investors, and creditors. Theoretically, minimising this rate through cheaper resources creates value for shareholders through an increase in present value and thus increasing market value (Arnold et al., 2019).

Figure 19 shows a decrease in WACC from 2016 to 2021 by only 0.5% and remained unchanged considering from 2017. However, until 2019 the rate had reduced significantly to 10.50%, hence a decline of 22% in four years. In 2020, it soared again due to the difficult economic situation caused by the COVID-19 pandemic. Despite the slight decrease from 2016 to 2021, we can say that value was created for shareholders through the reduction of the WACC, considering that the COVID-19 crisis occurred during this timeframe, resulting in a higher cost of capital.

Figure 19.



Source: Bloomberg.

Discussion and Evaluation

This chapter considers the aspects related to the creation of wealth for Burberry's shareholders, referring to the previous chapters through a critical analysis with references to the literature review.

As we have seen in the literature review, shareholder wealth can be created in different ways, from increasing the share price, to raising revenues, through a progressive dividend policy and an improvement of the capital structure.

As the first element of evaluation, Burberry's share price over the last five years is considered. The creation of value for shareholders occurs through the increase of the share price, which is sold at a higher price than it was bought. For example, considering a Burberry shareholder who bought 1,000 shares on 1 January 2017 at a value of £1500 and resold them on 31 December 2021 at a value of £1817.50, he had an increase in wealth of 21.16% with a gross gain of £317,500 (Bloomberg, 2022). Shareholder value creation can thus be positively assessed through share price analysis for the five years 2017/2021.

Another element of discussion concerns the assessment of value creation through earnings yield. Referring to the previous chapter, Burberry's earnings yield figures were compared to its two main competitors, LVMH and Kering, to assess whether an investor's choice of Burberry was profitable. From 2017 to 2021, Burberry is the only company of those analysed that has increased its earnings yield, meaning that a rise in shareholder value has occurred, as investors prefer higher-yielding companies when comparing similar companies.

The third element of valuation for the creation of shareholder wealth is dividends. As stated in the annual reports, Burberry has a progressive dividend policy where dividends are periodically increased allowing shareholders a progressive increase in their wealth. In addition, this

progressive policy is probably used as a signalling tool, whereby Burberry's managers by increasing and declaring dividend increases state that they expect the company's financial situation to improve. The increase and creation of value for shareholders are visible both in the dividend growth over the last 5 years and the progressive policy which is in line with the Bloomberg Dividend Forecast. By analysing these analysts' forecasts, it is possible to assess that over the last 5 years there has been a deviation of 1.77% from the actual dividend value from the forecast (Bloomberg, 2022) and that therefore the actual figures largely reflect the forecast of a progressive policy.

Finally, shareholder value creation can also be assessed through the rate of the cost of capital the company uses to finance itself. The WACC has been decreasing over the last 5 years and this is synonymous with a lower cost that Burberry has incurred to finance itself. This has steadily been decreasing until 2019 and in 2021 it returned to pre-crisis COVID-19 levels. This means that it is possible to positively evaluate the reduction in WACC which as the theory reminds minimising the rate can increase shareholder wealth, by using a lower cost of capital, increasing debt over equity as a source of financing (Arnold et al., 2019).

Based on what has been discussed, we can state that in the period from 2017 to 2021 the general shareholder wealth increased, and wealth was created despite Burberry facing one of the most difficult crises in 2020 which resulted in a significant reduction in revenue and a worsening financial situation. This condition of uncertainty due to COVID-19 has been significantly overcome thanks to an increase in sales for 2022 of 20.57% compared to the previous year and positive forecasts by analysts of the Financial Times who see an increase in the share price for next year of 4.42%, and an increase in the dividend of 13.62% (Financial Times, 2022).

Finally, an element to assess the creation of shareholder value also in the coming year lies in Burberry's share buyback decision worth £400 million in 2023 (Burberry, 2022). This share

buyback is certainly an important piece of information that Burberry gives to its shareholders as a purchase of its shares leads to an improvement in shareholder value. This happens for several reasons such as an increase in EPS, due to fewer outstanding shares while maintaining the same level of profitability, and an increase in the ownership percentage of the company (Nath, 2022). In addition, share repurchase is used by companies to demonstrate to investors that they have cash on hand that is not used for ordinary company business, and this can be synonymous with reliability and good company management in the short term. However, investors should be aware that companies may use share repurchases for short-term purposes such as increasing the share price, rather than for long-term targets (Nath, 2022).

Conclusion

This study assesses Burberry's shareholder value creation from 2017 to 2021 by examining financial data, performance, and strategy, along with luxury market trends. Starting with a review of the literature relating to the creation and measurement of shareholder wealth, dividend policy theory and capital structure, the main characteristics of Burberry and its major shareholders and the market in which it operates were described, considering the relative competitors for both the global and UK luxury markets. Subsequently, information on stock prices, corporate and investment performance ratios, dividends, and capital structure was analysed. From this information, it was assessed that Burberry has performed well in terms of value creation over the past five years, considering that in 2020 it suffered economic and financial difficulties due to the COVID-19 crisis. The company had an excellent performance, especially from 2017 to 2019, following the change in its direction and strategy followed by a large increase in revenue, especially in the Asia Pacific region. The Asia Pacific region has more concentrated sales and it had a steady increase in revenue even in 2020 when several shops were temporarily closed due to COVID-19.

Burberry's strategy aims to bring the brand to greater exclusivity in the luxury world, considering the preponderance in the luxury market of other larger competitors such as LVMH and Kering. The focus remains on the Asia Pacific market, where the wealthy population that can afford to buy luxury products is steadily increasing.

The creation of value for shareholders occurred in several ways. Wealth was created through the increase in Burberry's share price from 2017 to 2021 and the related increase in market value. In addition, the value was created through the progressive dividend policy, where the annual dividend was steadily increased, only apart from 2020 when the company decided to safeguard corporate performance at the expense of dividend payments to shareholders. The

increase in value for investors was also recorded from the point of view of corporate performance and capital structure. Considering these elements, this project showed a general increase in shareholder wealth. Finally, seeing the forecasts made for 2023 (Burberry, 2022), although outside the focus of this project, with a major share buyback, Burberry expects to increase shareholder wealth further.

This project represents a detailed analysis of shareholder value creation using Burberry as a case study, but still has limitations in terms of the data analysis and information used. The financial information taken from Burberry's website may be subject to subjective management judgement and there are limitations in comparing annual reports between Burberry and competitors as they differ by month. In addition, profitability ratios and earnings yield data were taken from Morningstar and may differ slightly from other databases. Finally, there may be differences given by the exchange rate when it comes to the analysis of revenues in that in some cases, they are denominated in British pounds, while in other cases they are denominated in US dollars.

In conclusion, following the COVID-19 crisis, Burberry and companies in the luxury market have increasingly realised the importance of online selling. This type of sale allows companies to save considerably on the physical costs of in-store sales, enabling more sales in absolute value. This is the trend of the future according to Bain & Company, which recorded an increase in online sales for the luxury market of 27% in 2021 compared to the previous year (D'Arpizio and Levato, 2021). Forecasts suggest that there could be a 30% increase in online sales of luxury products worldwide (D'Arpizio and Levato, 2021). However, one could say that for more traditional consumers connected to luxury products, exclusive in-store sales remain an experience that cannot simply be substituted for online sales. Burberry's online sales contribute 23% of all sales and are expected to reach a 30% share by 2025 (Burberry, 2022). This indicates that the digital channel has great growth potential but is still limited compared to in-store sales.

Seeing the finished product, touching it and feeling the ambience of a boutique is not easily replaced by a website. Therefore, I believe Burberry's strategy of trying to make the brand exclusive can contribute to both revenue growth and an increase in both online and physical sales, allowing for a related increase in shareholder wealth.

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Appendices

Global ratios							
Consolidated	02/04/2022	27/03/2021	28/03/2020	30/03/2019	31/03/2018	31/03/2017	31/03/2016
	th EUR	th EUR	th EUR	th EUR	th EUR	th EUR	th EUR
Exchange rate: GBP/EUR	12 months IFRS 1.18237	12 months IFRS 1.17390	12 months IFRS 1.12819	12 months IFRS 1.16649	12 months IFRS 1.14126	12 months IFRS 1.16476	12 months IFRS 1.26509
Profitability ratios							
ROE using P/L before tax (%)	31,60	31,43	13,83	30,18	28,95	23,25	25,64
ROCE using P/L before tax (%)	18,87	18,73	7,66	26,35	25,03	21,63	23,54
ROA using P/L before tax (%)	13,82	14,00	5,12	18,89	18,56	16,36	17,96
ROE using Net income (%)	24,55	24,10	9,98	23,23	20,60	16,95	19,41
ROCE using Net income (%)	14,93	14,64	5,83	20,35	17,91	15,84	17,85
ROA using Net income (%)	10,74	10,73	3,69	14,54	13,21	11,92	13,59
Profit margin (%)	18,08	20,91	6,40	16,20	15,10	14,27	16,53
Gross Margin (%)	71,16	70,93	64,77	68,41	69,43	69,89	70,10
EBITDA Margin (%)	30,57	36,17	26,50	20,48	20,45	21,50	22,93
EBIT Margin (%)	19,21	22,23	7,17	16,07	15,01	14,26	16,02
Cash flow / Operating revenue (%)	25,41	29,98	23,95	16,87	16,18	17,65	19,41
Enterprise value / EBITDA (x)	7,89	8,79	10,33	12,45	11,10	11,36	9,39
Operational ratios							
Net assets turnover (x)	0,98	0,84	1,03	1,61	1,64	1,50	1,42
Interest cover (x)	15,51	15,33	6,79	82,49	74,60	78,86	175,17
Stock turnover (x)	6,63	5,83	5,85	5,85	6,64	5,47	5,17
Collection period (days)	18	23	15	16	15	25	28
Credit period (days)	23	20	27	29	20	22	24
Export revenue / Operating revenue (%)	92,57	93,81	87,86	88,54	88,84	89,12	90,05
Structure ratios							
Current ratio (x)	2,53	2,82	2,31	2,51	2,79	2,90	2,77
Liquidity ratio (x)	2,00	2,25	1,70	1,79	2,04	2,01	1,87
Shareholders liquidity ratio (x)	1,27	1,26	0,91	6,29	5,83	11,28	10,50
Solvency ratio (Asset based) (%)	43,74	44,54	37,02	62,60	64,12	70,35	70,04
Solvency ratio (Liability based) (%)	77,74	80,29	58,78	n.s.	n.s.	n.s.	n.s.
Gearing (%)	94,62	95,86	131,28	18,45	18,80	11,09	12,70

Source: FAME.