**BURBERRY GROUP PLC**

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**1. Executive Summary**

This report presents a detailed financial and valuation analysis of Burberry Group plc, with the primary objective of evaluating the company’s recent financial performance and long-term investment potential.

We looked at the historical performance of Burberry, analysing the most recent year of 2023/24 and working through the main four sections of performance appraisal: the operating performance, the use of operating assets, the financing structure and the dividend policy. Throughout this analysis, we showed declines in operating margins, a decomposition of ROCE to explain the fall, an explanation of the rise in debt and the transformation of the payout ratio for Burberry.

Next, using our three-year forecast model, we identified the key drivers of profit from our model and presented this using a sensitivity table to show the effect of these drivers on profit.

The section Required Returns contains an estimate of a cost of equity, using researched risk-free rates, betas and ERPs to develop several values for the COE, where we chose a justified value to use for WACC and valuation methods.

Finally, we applied a two-stage Dividend Discount Model (DDM) and a Free Cash Flow to Equity (FCFE) model, we derived the intrinsic value of Burberry and validated why we used both methods. We found the required rate of return for the current market price and created a detailed sensitivity matrix maps out Burberry’s implicit trade-off between growth and COE at today’s share price.

Overall, this report shows actionable insights into Burberry’s performance, forecast drivers, capital costs and market expectations.

**2. Performance Appraisal**

**2.1 Operating Performance Metrics**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Metric** | **FY21** | **FY22** | **FY23** | **FY24** | **r FY23 4 FY24** |
| **Revenue (£m)** | 2,344 | 2,826 | 3,094 | 2,968 | (4.1%) |
| **Gross Margin** | 70.9% | 71.2% | 70.6% | 67.7% | (2.9pp) |
| **Operating Profit (£m)** | 424 | 513 | 611 | 405 | (33.7%) |
| **Operating Margin** | 18.1% | 18.2% | 19.7% | 13.6% | (6.1pp) |

Table 1

*Gross margin = Gross Profit / Revenue*

*Operating margin = Operating Profit / Revenue*

**Revenue and Gross Margin**

As we can see from the table above, revenue was experiencing a steady increase from 2021 to 2023, followed by a minor fall of 4% in 2024. This was mainly driven by a deliberate pull-back from third-party distributions: Burberry reduced the number of wholesale partner doors and exited lower-margin concession agreements to reinforce brand exclusivity and full-price selling – but was the single largest driver of overall revenue decline

|  |  |
| --- | --- |
| **Region** | **r FY24** |
| **Asia Pacific** | 3% |
| -Mainland China | 2% |
| -South Korea | (8%) |
| -Japan | 25% |
| -Other APAC | 4% |
| **EMEIA** | 4% |
| **Americas** | (12%) |

This loss was partly offset by retail and licensing. Retail sales showed resilience with a 1% increase, with pronounced regional differences:

* Asia Pacific was fuelled by inbound tourism and a weak yen from Japan.
* EMEIA was driven by European tourist recovery post-pandemic.
* The Americas reflected cautious consumer spending under inflationary pressure.

Table 2

Licensing revenue climbed 23%, led by the launch of Burberry Goddess fragrance and the renewal of high-royalty licensing arrangements in eyewear and watches.

The gross margin of 67.7% reflects the 4% drop in revenue from the regional and channel movements. It was also driven by two main factors affecting the cost of sales:

* There were higher product development and design costs against last year that were not full offset by pricing.
* Stock provisions were also a headwind of around 100bps given Burberry planned at a higher sales level.

**Operating Profit and Margin**

The operating profit follows a similar trend, increasing between 2021 and 2023 and falling in 2024. However, this fall is a lot more significant than the drop in revenue, with it being the lowest operating profit figure in the four-year period at a 34% decrease. Management said this is primarily due to:

* Elevated marketing costs with high-visibility activations such as the Harrods takeover and digital initiatives to drive sales.
* Store refurbishments incrementally pushed depreciation and lease charges for flagship refits (Morgan, 2023).
* The impact of inflation on people costs.

Burberry has deliberately accepted higher operating expenses in FY24 to reposition the brand for sustainable, full-price growth – heavily investing in marketing and flagships experiences. This is all to support Daniel Lees’s creative debut and to heighten brand desirability.

**Operational Leverage Analysis**

|  |  |  |  |
| --- | --- | --- | --- |
| **Period** | **Revenuer** | **Op. Profit r** | **Op. Leverage** |
| **FY22 4 FY23** | **9.5%** | **19.1%** | **2.0x** |
| **FY23 4 FY24** | **(4.0%)** | **(33.7%)** | **8.4x** |

Table 3

Operating Leverage Coefficient = %change in Operating Profit/ %change in Revenue

Burberry’s operating leverage coefficient (OLC) surged from 2x in FY22-23 to 8.4x, meaning that a 4% sales decline translated into a 34% operating profit drop. This steep leverage highlights an increase in fixed costs for the company suggests that Burberry are making strategic, long-term investments to strengthen its brand and drive future revenue growth.

However, it also means short-term earnings will be more volatile, and the company must remain consistent with sales and tighten cost control to absorb these higher fixed costs.

**2.2 Operating Assets and Utilisation Analysis**

**Capital Employed and Working Capital**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Metric** | **FY21** | **FY22** | **FY23** | **FY24** | **r FY23 4 FY24** |
| **Non-current assets (£m)** | 1,520 | 1,662 | 1,823 | 1,946 | 6.7% |
| **Current assets (£m)** | 1,982 | 2,035 | 1,863 | 1,424 | (23.6%) |
| **Current liabilities – Overdrafts/ST borrowings(£m)** | 657 | 759 | 764 | 778 | 1.8% |
| **Working Capital (£m)** | 1,325 | 1,276 | 1,099 | 646 | (41.2%) |
| **Capital Employed (£m)** | 2,845 | 2,938 | 2,922 | 2,592 | (11.3%) |

Table 4

*Working capital = current assets – current liabilities*

*Capital employed = working capital + non-current assets*

In FY23/24 Burberry’s capital employed – the sum of non-current assets and net working capital – fell by 11.3%. This change reflects two offsetting forces. Non-current assets increased by 6.7% as the company enacted its long-term strategy with flagship store refurbishments and new retail concepts.

At the same time, operating working capital contracted by £453m. While inventory and receivables each rose slightly, the primary driver was a sharp fall in cash and cash equivalents: possibly from elevated marketing expenditure and dividend payments which exceeded operating cash generation.

The effect is a leaner working capital requirement that helped fund capital expenditures internally, but because it comes from a depleted cash buffer it also highlights Burberry’s increased reliance on its long-term asset base and external financing to support the business through its strategic investment phase.

**Working Capital Efficiency**

|  |  |  |  |
| --- | --- | --- | --- |
| **Metric** | **FY23** | **FY24** | **r FY23 4 FY24** |
| **Inventory days** | 179.1 | 193.0 | +13.9 |
| **Days-sales-outstanding (DSO)** | 36.2 | 41.8 | +5.6 |
| **Days-purchases-outstanding (DPO)** | 191.1 | 167.1 | (24.0) |

Table 5

Inventory days = Inventory /cost-of-sales x 365

*Days-sales-outstanding = Trade receivables / revenue x 365*

*Days-purchases-outstanding = Trade payables / cost-of-sales x 365*

The change in Burberry’s inventory days from FY23 to FY24 increased by around 14 days. This reflects a build-up of seasonal and core stock, as well as slower sales in the wholesale channel. Holding this inventory for an additional two weeks ties up significant working capital and raises the risk of markdowns.

Burberry’s DSO extends by 5 days as a larger portion of sales flows through wholesale – where payment terms are longer than in retail. While this channel mix broadens brand reach, it delays cash receipts.

The DPO metric decreases by 24 days, indicating that Burberry is paying suppliers more quickly than before. This could be due to the decrease in revenue or the increase in operating expenses, which causes suppliers to tighten credit terms, but could also be from new contractual commitments with new suppliers.

**Return on Capital Employed (ROCE)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Metric** | **FY22** | **FY23** | **FY24** | **r FY23 4 FY24** |
| **ROCE** | 18% | 21% | 14% | (7.0pp) |
| **Operating margin** | 18.15% | 19.75% | 13.65% | (6.1pp) |
| **Asset turnover (x)** | 0.99x | 1.05x | 1.02x | (0.03x) |

Table 6

*Return on capital employed = Asset turnover x Operating margin*

*Asset turnover = revenue / capital employed*

In FY24, Burberry’s ROCE fell sharply from 21.0% in FY23 to 14.0%. A DuPont breakdown reveals that the operating margin decline is the primary culprit for the ROCE decline, dropping by 6.1 percentage points. The margin squeeze reflects:

* Major flagship refits in London, Paris and Hong Kong increased depreciation and lease charges.
* An increase in marketing investment with events such as Harrods ‘Knight Blue’ takeover and the Fashion Week tent show.
* A spike in wages due to inflation.
* A pull back in the higher-margin wholesale channel in favour of retail.

On the other hand, Burberry’s asset turnover dipped only slightly, amplifying the effect on ROCE. This was due to:

* An 11.3% drop in capital employed did not fully offset the 4.1% revenue fall; the steeper sales decline meant that each unit of capital was under-utilised.
* Much of the 11.3% drop in capital employed came from using cash to fund investments – not from leaner inventories or receivables – so the fall in assets did not translate into higher turnover.

In summary, Burberry’s sharp ROCE decline as driven by a huge drop in the operating margin – the lowest in the four years of data collected – as the company moved towards a different business strategy of building brand reputation and a longer-term view.

Although the asset turnover does slightly dip, it is still consistent with previous years. This combination highlights that profitability is the one of the critical areas of improvements for Burberry to restore efficiency. As the company’s strategic investments in brand matures, the focus should shift to full-price margins and converting sales to cash, therefore rebuilding operating profit and underpinning a sustainable recovery in ROCE.

**2.3 Financing Structure**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Metric** | **FY21** | **FY22** | **FY23** | **FY24** | **r FY23 4 FY24** |
| **Debt-to-Equity Ratio** | 124.49% | 128.63% | 139.50% | 192.03% | +52.5pp |
| **Equity Ratio** | 44.54% | 43.74% | 41.75% | 34.24% | (7.6pp) |
| **Interest Coverage Ratio** | 15.41 | 15.6 | 15.4 | 6.8 | (8.6x) |

Table 7

The financial data from 2021 to 2024 show that the company's capital structure exhibits significant debt driven characteristics.

The debt-to-equity ratio rose from 124.49% to 192.03%, while the equity ratio shrank from 44.54% to 34.24%, indicating that using debt finance is gradually replacing shareholder equity as the core source of funds for asset expansion.

Although the interest coverage ratio remained stable at over 15 times in 2021-2023, it sharply dropped to 6.8 times in 2024, revealing an imbalance between the growth rate of pre-tax profits and the expansion of debt costs.

**Return on Equity (ROE)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Metric** | **FY23** | **FY24** | **r FY23 4 FY24** |
| **Net Profit Margin** | 15.9% | 9.1% | (6.8pp) |
| **Asset Turnover** | 1.05x | 1.02x | (0.03x) |
| **Financial Leverage** | 1.82x | 1.90x | +0.08x |
| **ROE** | 30.4% | 17.6% | (12.8pp) |

Table 8

In FY24, Burberry’s ROE fell sharply, from 30.4% to 17.6%, meaning the company is generating far less profit for each pound of equity investors must put in the business. The main reason is due to a much lower net profit margin, with rising costs and less-profitable sales leaving less money in the bottom line.

Asset turnover and financial leverage have very minimal impact on ROE, with gearing rising only slightly. Therefore, shareholders saw a significantly weaker return on their capital in FY24, suggesting that it leads back to the profitability problem Burberry need to address.

**2.4 Dividend Policy**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Metric** | **2021** | **2022** | **2023** | **2024** |
| **DPS (£)** | 0.00 | 0.54 | 0.53 | 0.64 |
| **Payout Ratio** | 0.00 | 0.55 | 0.41 | 0.86 |
| **Dividend Yield** | 0.00 | 0.11 | 0.11 | 0.13 |

Table 9

*Payout Ratio=Dividends Paid / Profit After Tax (PAT)*

*Dividend Yield= DPS /**FV per share*

The dividend policy from 2021 to 2024 shows significant structural adjustments, reflecting the phased evolution of the company's financial strategy and shareholder return logic. In 2024, the dividend payout ratio soared to 86% (DPS=£ 0.64), significantly deviating from historical averages or due to a bias towards short-term shareholder returns after concentrated profit releases.

However, a high dividend payout ratio may compress financial elasticity, and if profit growth slows down or capital expenditure demand rebounds, it may exacerbate cash flow pressure. Despite the gradual increase in dividend yield from 0.11% to 0.13% during the same period, its absolute level is still relatively low.

**3. Forecasts and Earnings Model**

**Sensitivity Analysis for Revenue**

|  |  |  |
| --- | --- | --- |
| **Revenue Change (%)** | **Revenue (£m**) | **Adjusted Operating Profit (£m**) |
| -10 | 2,671 | 376 |
| -5 | 2820 | 397 |
| 0 | 2968 | 418 (From FY24) |
| +5 | 3116 | 439 |
| +10 | 3265 | 460 |

Table 10

There is a clear correlation between Revenue fluctuations and profitability. In FY24, a 4% decrease in Revenue resulted in a 34% drop in adjusted operating profit. With an operating margin of 14.1%, a 5% increase in revenue could raise profit to £439m while a 10% drop could lower it to £376m.

**Sensitivity Analysis for Operating Costs**

|  |  |
| --- | --- |
| **Operating Expenses Change (%)** | **Profit (£m)** |
| -10 | 460 |
| -5 | 439 |
| 0 | 418 (from FY24) |
| +5 | 397 |
| +10 | 376 |

Table 11

Assuming a Linear relationship, a 5% reduction in operating costs could boost profit to £439m, while a 10% increase could decrease it to £376m.

**Analyst Consensus Estimates for FY25**

**For Revenue**: £2457m

**For Adjusted Operating Profit**: £11m

The consensus projects a decline of 17% from the revenue of £2968 from 2024. Operating expenses are expected to drop by approximately 4.1% from FY2024. Our estimate for Revenue shows a 26% difference from the consensus and 5% from the FY2024 which shows a significant difference in forecasting.

In financial forecasting, we calculate operating expenses by reverse deduction of revenue and operating profit. According to our model, if Burberry achieves revenue of £ 3.116 billion and operating profit of £ 439 million in fiscal year 2025, the corresponding operating expenses would be £ 2.677 billion. The market consensus predicts revenue of £ 2.457 billion and operating profit of only £ 11 million, resulting in operating expenses of £ 2.446 billion. Comparing the two, we found that our estimated operating expenses are 231 million pounds higher than the market consensus, with a difference of 9.45%.

- **Operating Expenses (Our Estimate)** = Revenue − Operating Profit  
 → £3,116m − £439m = **£2,677 million**

**-Operating Expenses (FY2025 consensus)** = Revenue − Operating Profit  
 → £2,457m − £11m = **£2,446 million**

2677-2446/2446 x 100 = +9.45%.

Our estimate for operating expenses appears to be 9.45% higher than the FY2025 consensus.

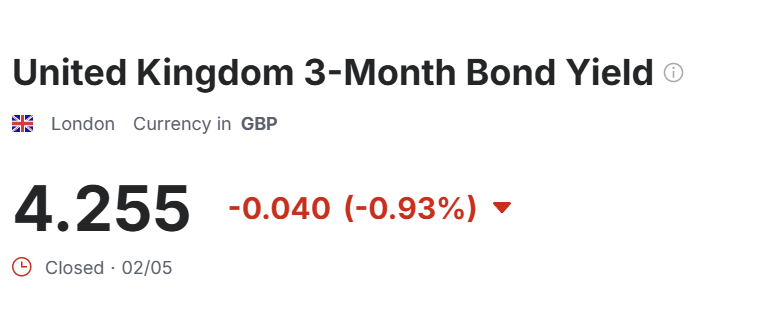
**4. Required Returns**

|  |  |
| --- | --- |
| **Variable** | **Values** |
| **Risk-Free Rate (rf)** | 4.255% - 4.53% |
| **Equity Risk Premium (ERP)** | 3.4% - 6.1% |
| **Beta (β)** | 0.92 |
| **Cost of Debt (rd)** | 5% |

Table 12

**Risk-Free Rate (rf)**

We have obtained these Risk-Free Rate (rf) values from the Financial Times and Investing.com. We sourced the 10-year UK government T-Bond value (4.53%) from the Financial Times and the UK 90-day T-Bill value (4.255%) from Investing.com.

[[1]](#footnote-2)A screenshot of a graph

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**Equity Risk Premium (ERP)**

The ERP range reflects a synthesis of historical excess returns and forward-looking market expectations.

|  |  |  |
| --- | --- | --- |
| **ERPs** | 1900-2020 | |
|  | **T-bills** | **T-bonds** |
| **UK** | 4.3% | 3.4% |
| **Germany** | 6.1% | 4.8% |

Table 13

**Beta (β)**

The value of Beta we will use to estimate the firm’s cost-of-equity is 0.92. We arrived at this value by viewing a variety of sources and this value was the one that occurred the most frequently. Below is a table of the values that we acquired from all the sources:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Source** | **Yahoo** | **Fin Box** | **Financial Times** | **Investing.com** | **MarketWatch** |
| **Beta** | 0.92 | 0.92 | 1.8065 | 0.95 | 1.28 |

Table 14

**Cost of Debt (rd)**

The Cost of Debt (rd) value of 5% is the Rate of Debt value in 2024 from our financial statements.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FY21** | **FY22** | **FY23** | **FY24** |
| **Rate on debt** | 0% | 3% | 3% | 5% |

Table 15

**The Cost of Equity (COE)**

When analysing Burberry's cost of equity (COE), we used four different risk-free interest rates to compare, namely, T-Bills and treasury bonds. Through the calculation results of these two methods, we can gain a deeper understanding of Burberry's capital cost composition and its influencing factors in the current market environment.

|  |  |  |
| --- | --- | --- |
| **COEs under CAPM** | **Using T-Bills** | **Using T-Bonds** |
| **Using ERPs from UK** | = 4.255% + 0.92 x 4.3% = 8.211% | = 4.53% + 0.92 x 3.4% = 7.658% |
| **Using ERPs from Germany** | = 4.255% + 0.92 x 6.1% = 9.837% | = 4.53% + 0.92 x 4.8% = 8.946% |

Table 16

For our base case, we are using the UK T-Bills ERP, with a COE of 8.211%. It represents a balanced and moderately conservative assumption for the firm’s cost of equity. The spread of COEs demonstrates how sensitive the COE is to assumptions about the ERP and risk-free rate.

**Weighted Average Cost of Capital (WACC)**

According to the provided data, Burberry's total debt is 161.6 million, market capital is 1856.8 million, and enterprise value (EV) is 3472.8 million.

|  |  |
| --- | --- |
| **Variables** | **2024** |
| **Total debt (£m)** | 1,616 |
| **Market Capital (£m)** | 1,856.8 |
| **Enterprise Value (£m)** | 3,472.8 |
| **1 - Tax Rate** | 70.76% |
| **Rate on Debt** | 5% |
| **COE (T-Bonds)** | 8.211% |

Table 17

By calculation, we found that Burberry's debt to enterprise value ratio (D/EV) is 46.53%, while its equity to enterprise value ratio (E/EV) is 53.47%. These ratios reflect the relative importance of Burberry's debt and equity in its financing structure.

According to the formula, we conclude that Burberry's WACC is 5.96%.

**5. Absolute Valuations and Valuation Models**

**Two-Stage Gordon Growth DDM**

The basic assumption of this model is that future dividends will continue to grow at a stable rate of 3.0%, so we can calculate the fair value of the company by discounting future dividends to their current value.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **(£m)** | **2025E** | **2026E** | **2027E** | **2028P** | **2029P** | **D1** | **Gordon Factor** |
| **Dividends** | 0.0 | 55.8 | 124.6 | 112.0 | 116.4 | 119.9 | 19.19 |
| **Terminal Value** |  |  |  |  | 2,300.7 |  |  |
| **Total** | 0.0 | 55.8 | 124.6 | 112.0 | 2,417.1 |  |  |
| **Discount Factor** | 1.08 | 1.17 | 1.27 | 1.37 | 1,48 |  |  |
| **PV** | 0.0 | 47.7 | 98.3 | 81.7 | 1,629.0 |  |  |
| **Total** | 1,856.8 |  |  |  |  |  |  |
| **No. of Shares** | 364 |  |  |  |  |  |  |
| **Fair Value per Share** | **£5.10** |  |  |  |  |  |  |

Table 18

* D1 = 119.9 (the expected dividend one year after 2029)
* k = 8.211% (COE)
* g = 3%

This estimate of **£5.10** represents the intrinsic value of Burberry’s equity under the assumption that dividends resume in FY26 and grow modestly thereafter.

**Free Cash Flow to Equity (FCFE)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **(£m)** | **2025E** | **2026E** | **2027E** | **2028P** | **2029P** |
| **Cash from Operating activities** | 553.1 | 543.1 | 598.0 | 701.3 | 715.8 |
| **Cash from Investing activities** | (218.0) | (203.1) | (219.6) | (189.0) | (193.8) |
| **Financing Cash Flows** | (298.6) | (300.0) | (301.7) | (303.8) | (304.6) |
| **FCFE** | 36.5 | 40.0 | 76.8 | 208.5 | 217.4 |
| **Terminal Value** |  |  |  |  | 4,297.9 |
| **Total** | **36.5** | **40.0** | **76.8** | **208.5** | **4,515.3** |

Table 19

The FCFE model begins with projections of free cash flow to equity over five years. For each year, we take operating cash flows, subtract capital expenditures and working-capital changes and add net financing flows. This produces FCFE values as seen in the table above.

We then calculate a terminal FCFE of £4,515.3m at the end of FY29 using the same Gordon Growth formula used for DDM and find the total for each year.

These totals are discounted by the COE (8.211%), added up to equal a value of £3,323.8m and divided by 364m shares. This gives an FCFE-based fair value of **£9.13** per share.

**Reconciliation**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2025E** | **2026E** | **2027E** | **2028P** | **2029P** |
| **Net Cash Flow** | (4.0) | (87.6) | (114.5) | (12.6) | (12.9) |
| **r Cash on SoFP** | 36.5 | (65.9) | (107.8) | 21.5 | 11.0 |
| **Difference** | 40.5 | 21.7 | 6.7 | 34.1 | 23.9 |

Table 20

|  |  |  |  |
| --- | --- | --- | --- |
| **FCFE** | **DDM** | **PV of r Cash** | **Total** |
| 3,323.8 | 1,856.8 | (359.2) | 1497.6 |

Table 21

As shown in table 19 and 20, the DDM and FCFE do not reconcile, while the spread of differences in our cash figures in the SoFP and SoCF is small relative to the absolute cash flow figures showing that our FCFE inputs tie to the balance sheet.

This result is because in FY25, when dividends were zero, the DDM implies no shareholder return, even though cash is still flowing out of the business.

**Current Market Price**

To infer what return investors must be pricing into Burberry today, we use our two-stage DDM to solve the required COE that makes the model output equal the current market price of 768.80p.

|  |  |
| --- | --- |
| **Growth, *g*** | **COE, *k*** |
| 2% | 5.56% |
| 3% | 6.31% |
| 4% | 7.06% |
| 5.53% | 8.211% |

Table 22

* At the current market price, the DDM implies investors require a 6.31% return if they believe Burberry’s dividends will settle into a long-term 3% growth rate.
* If the perpetual growth rate is only 2%, then the required return falls to 5.56%, since lower growth necessitates a lower discount rate to sustain the same price.
* Conversely, a more optimistic 4% growth forecast pushes the implied return up to 7.38%.
* Assuming that our COE is correct and represents what investors require from Burberry, the growth rate to maintain this would be 5.53%. However, a high COE could suggest higher perceived risk from Burberry, therefore investors need security from a greater growth rate.

**Sensitivity Analysis**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **COE / g** | **2.5%** | **3%** | **3.5%** | **4%** | **4.5%** | **5%** |
| **5.0%** | 10.32 | 12.31 | 15.62 | 22.27 | 42.31 | - |
| **5.5%** | 8.70 | 9.97 | 11.87 | 15.05 | 21.41 | 40.50 |
| **6.0%** | 7.55 | 8.41 | 9.62 | 11.44 | 14.48 | 20.55 |
| **6.5%** | 6.68 | 7.30 | 8.12 | 9.27 | 11.01 | 13.90 |
| **7.0%** | 6.01 | 6.46 | 7.05 | 7.83 | 8.92 | 10.57 |
| **7.5%** | 5.47 | 5.81 | 6.24 | 6.79 | 7.53 | 8.57 |
| **8.0%** | 5.03 | 5.29 | 5.61 | 6.02 | 6.54 | 7.24 |
| **8.5%** | 4.66 | 4.86 | 5.11 | 5.41 | 5.79 | 6.29 |
| **9.0%** | 4.35 | 4.51 | 4.70 | 4.93 | 5.21 | 5.57 |

Table 23

Looking at table 22, Burberry’s fair value is highly sensitive to assumptions about its sustainable growth rate. Small changes in g sharply alter the value, for example, at a COE of 8%, a 0.5 ppt increase in g from 4% to 4.5% leads to an 8.6% increase in the fair value. A further increase to a g of 5% adds on another 10.7%.

Conversely, the COE also exerts a strong downward effect valuation as it rises. At a fixed g of 3%, raising the discount rate from 6% to 8% cuts fair value by ~40%. Therefore, even a small shift in COE can translate to large valuation declines.

Overall, this sensitivity analysis shows that small forecasting errors in sustainable growth can lead to materially different outcome in the pricing of a Burberry share. This extreme sensitivity to g could suggest a greater valuation uncertainty for Burberry, underscoring the need for scenario analysis and conservative growth assumption when making investment decisions.

**6. Conclusions**

Valuation is about managing uncertainty: by grounding our models in real strategic actions, basing assumptions on historical trends, forward-looking forecasts and - more importantly - the company’s direction, we turn speculative inputs into informed narratives. The process demands not just the mathematical element of developing the model, but a critical understanding of *why* numbers behave as they do, particularly when strategic shifts do not align with historical patterns.

When constructing DDM and FCFE models, the selection of historical financial data and the setting of predictive parameters (such as perpetual growth rate and cost of capital) directly affect the results. For example, Burberry's dividend policy underwent a sudden change in 2024 (with a payout ratio jumping to 86%), and simply using historical dividend growth rates would severely distort forecasts. This requires the valuer to penetrate the financial statement figures and understand the substantive impact of strategic changes on the cash flow structure of the enterprise, rather than relying on surface trend extrapolation.

Valuation is the combination of art and science. Although the model output appears precise, it contains a significant number of subjective judgments, such as risk premium selection and Beta adjustment. For example, Burberry's Beta obtained a difference of 0.92 to 1.28 from different data sources, which alone can cause fluctuations in equity costs by more than 1.5 percentage points, resulting in a valuation deviation of up to 20%. This requires the valuer to rigorously verify the rationality of the data source, and to openly acknowledge the unavoidable uncertainty, and anchor the value in multiple dimensions through cross validation (such as relative valuation method, real option analysis).

Ultimately, valuation frameworks serve as tools to negotiate with market assumptions, not the divine absolute truths. It is fundamentally a structured dialogue around expectations rather than an exercise in uncovering a ‘true’ price. Even the most perfectly calibrated DDM can be rendered obsolete if the market drops different views on growth, risk premiums or payout policies. The key lesson from this module is that you must understand how each input shapes the outcome; what the key financial metrics really mean in terms of the business direction, and why sensitivity analysis is so important in ensuring model stability. The value of valuation lies not in dictating a single point estimate but in illuminating the range of possible outcomes and allowing decision-makers to navigate uncertainty with transparency rather than false precision.

**7. Appendix**



**8. References**

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1. [↑](#footnote-ref-2)