



**Burberry (BRBY-LSE): £13.43**

Market Cap: £4.8 B

Enterprise Value: £4.6 B

EV/EBITDA: 6.5x

P/E: 12x

Rating: BUY

Upside: 50%

12-month perf (%): -45%

30-Day Average Daily Volume: 2.3mm

Date: 2/1/2024

## Company Background

There are only a few luxury brands globally recognized for their enduring appeal: Burberry is one of these select few, having existed for over 168 years. Instances where such distinguished brands trade at a significant discount to their intrinsic value are rare. This occurs when the brand has some design mishaps or is undergoing some controversy. Fortunately, luxury heritage brands are very durable and can survive mismanagement. Burberry has been in the midst of a seven-year transformation aimed at elevating the brand and revamping its product offerings. These restructurings started with the previous CEO Marco Gobbetti in 2017 and continue with the present-day CEO Jonathon Akeroyd. Although elevating a brand is not riskless (Previous companies that attempted this and failed were Mulberry which tried to make this leap with the ex-CEO of Hermes at the helm and quickly had to roll back prices when customers revolted) we believe Burberry has the heritage and the strategy to warrant a position.

## Opportunities

- Daniel Lee has orchestrated a series of runway shows that garnered favorable reviews and acclaim for their reconnection with British heritage. Among Lee's initial design innovations was the reintroduction of the Knight emblem and the introduction of a line of handbags to reinforce this theme. In the luxury industry, new designs require time to achieve market penetration, and we believe given Lee's track record and the brand's strategic direction, there is a considerable likelihood of him generating substantial demand for Burberry.
- In 2023, BRBY generated about 36% of revenue from accessories while peer brands generated 50% plus of revenues from this segment. This is a substantial growth opportunity for BRBY in the accessories segment, an area that aligns with Daniel Lee's expertise and specialization.
- Although luxury brands are penetrated in China, developing countries such as India and Southeast Asia may prove to be the next leg of growth.

## Valuation

While short-term macroeconomic challenges impact the luxury sector, we believe that BRBY presents considerable long-term potential. BRBY finds itself in the advanced stages of its brand elevation journey, currently trading at approximately 12x CY 2023 earnings. Acquiring a venerable luxury brand with 167 years of history at such valuation represents an enticing opportunity. We see a minimum of 50% upside and potentially significantly more if Lee can stimulate robust demand for his British luxury designs.

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