FINANCE COURSEWORK

Question 1

Burberry is a fashion company, which is a manufacturer of clothes and accessories. Burberry clothes are first and foremost for elegance, practicality and quality. It has a classic conservative style. Nowadays, the company is promoting three Burberry fashion lines. The first is Burberry Prorsum, which represents models showcased at the fashion shows in Milan. It sets the fashion trends around the world and is incredibly popular. Burberry Prorsum models are luxury clothing that can afford only very wealthy individuals from the upper class. The second are jeans, shirts, sweaters, shoes, handbags and small skirts. This is a classic line Burberry London, which is a hallmark of fashion house. The basis for the Burberry London collections is a served tradition of English style and history of the brand. In addition, the company successfully develops another fashion line, which is called Thomas Burberry. It is children and teens' clothing, watches, sunglasses, accessories and perfumes.

Question 2

Auditor's report with respect to financial information is very important because financial statements reflect the financial results of transactions and other events, combining them into broad categories according to their economic characteristics. Financial statements are drawn up by the company management on the basis of truthful presentation and disclosure of its constituent elements. The auditor expresses an opinion with regard to these issues. In this case, the supervisor approves that the financial statements corresponds to certain categories, which are: availability (existence), rights and obligations, a phenomenon, completeness, evaluation, measurement (accuracy), presentation and disclosure.

The purpose of an audit of financial statements is enabling the auditor an ability to express an opinion as to whether the financial statements are prepared, in all material aspects, in accordance with the conceptual framework for financial reporting. Audit report adds credibility to the financial statements, but the user should not consider this report as any confidence in the viability of the customer in the future, nor as a guarantee of rationality or efficiency of doing business client management.

As for Burberry, efforts aimed at restricting the company's business have given good results. Transforming from a predominantly wholesale supplier of fashion goods into the global retailer of luxury goods company, Burberry managed to increase its revenues from the operation by 10% in the first half of the fiscal year. The company reported that, according to preliminary data, operating revenues (excluding Burberry acquisitions in Taiwan and operations of reorganizing Spanish division) grew by 10% compared to the same period of the previous financial year. The results exceeded the expectations of analysts who forecasted an increase of 8%. Burberry’s share price rose by 3.9%, reaching a record high of 5.30 pounds.

Burberry operating revenue increased from £355 million a year ago to £392 million. In this sum, about 43% are retail, a segment in which the company has increased its sales by 23%. In the wholesale segment, which occupies 46% of Burberry turnover, revenue growth amounted 1% in the previous year. Burberry has opened six new stores during the first half of the year, including three in the Midwest and one on the East coast of the country. Appropriate investments for the year amounted to about £50 million.

Question 3

Ratio	**Expression**	**2013**	**2012**	**2013 result**	**2012 Result**	**Industry Average**
ROE	$\frac{Net\ profit\ after\ tax}{Shareholders'equity} \times 100$	$\frac{259.2}{824.5} \times 100$	$\frac{265.1}{635.0} \times 100$	31%	42%	36.5%
Gross profit margin	$\frac{Sales - COGS}{Sales} \times 100$	$\frac{1{,}998.7 - 556.7}{1{,}998.7} \times 100$	$\frac{1{,}857.2 - 558.3}{1{,}857.2} \times 100$	72.2%	69.9%	71.05%
Net profit margin	$\frac{Net\ profit\ after\ tax}{Sales} \times 100$	$\frac{259.2}{1{,}998.7} \times 100$	$\frac{265.1}{1{,}857.2} \times 100$	13%	14%	13.5%
Current ratio	$\frac{Total\ current\ assets}{Total\ current\ liabilities}$	$\frac{1{,}746.2}{693.4}$	$\frac{1{,}610.6}{719.2}$	2.52	2.24	2.38
Inventory turnover period	$\frac{Total\ operating\ revenue}{Other\ income} + \frac{Current\ assets}{Inventory}$	$\frac{345.8}{3.4} + \frac{966.5}{351.0}$	$\frac{376.9}{2.9} + \frac{1{,}016.5}{311.1}$	104	133	118.5 days
Payables’ turnover period	$\frac{Total\ supplier\ purchases}{Average\ Accounts\ Payable}$	$\frac{604.2}{174.9}$	$\frac{510.5}{214.65}$	4	2	3 days
Gearing ratio	$\frac{Owner's\ equity\ (capital)}{Borrowed\ funds}$	$\frac{1{,}052.8}{129.8}$	$\frac{891.4}{208.6}$	8%	4%	6%

P/E ratio	$\frac{Market\ value\ per\ share}{Earnings\ per\ share}$	$\frac{210.2}{58.3}$	$\frac{133.1}{60.4}$	3.6	2.2	5.8

Question 4

a) Sales

Burberry managed to produce products for the amount of £1,998.7 million in 2013, while this index was £1,857.2 in 2012. Thus, the company's sales operations increased to almost 8% for the last fiscal year, which showed a positive result of customers' interest in purchasing the products of the company.

b) Operating Profit

The company's operating profit was £345.8 million and £376.9 million in 2013 and 2012 years respectively. The index represents Burberry's decrease in the area of operations as the amount of operating profit showed its fall to almost 9%.

c) Share Price

Burberry's share price decreased to almost 3% when the weighted average share price at the respective exercise dates in the year was £12.80 (2012: £13.15).

Question 5

The given paper has presented Burberry's financial results for the last 2 years, as well as the meaning of the company's important ratios. Thus, return on equity reflects the level of company's profitability, along with the changes that the company has managed to get for the last fiscal year compared to the previous year. The higher ROE presents a high growth of the company. According to the calculations presented above, the company's ROE increased from 31% to 42% in 2013 comparing to 2012, which showed 11% increase during the last fiscal year.

Gross profit margin shows financial health of the company, as well as reflects the company's ability to pay its operating and other expenses, and establish the future strategy. The meaning of the index has an impact on the costs of goods sold and pricing policies. Burberry's gross profit margin was 72.2% for the 2013, while the same ratio was 69.9% in 2012. The growth of the index shows the company's stability and correct strategy plan for the future, which has been implemented by the company's management in the recent years due to the desired restricting of the company's business.

Net profit margin represents the ratio of the company’s non-production to non-credit costs, such as administration, finance and marketing costs. High net profit margins show a bigger ability for the company’s protection during the hard times. Burberry’s net profit margin declined from 14% to 13% in 2013 compared to 2012 year. The ratio is rather low for the company to feelprotected during the hard times. This gives the company’s management a signal to reconsider their strategy for operational and sales activity.

Burberry’s current ratio increased to 12.5% in 2013 when it was 2.52 and 2.24 in 2013 and 2012 years respectively. Thus, the ratio under 1 allows stating that Burberry was able to pay off its obligations in 2013, which were short-term liabilities (debt and payables) and short-term assets (cash, inventory, receivables).

Inventory turnover period of Burberry has been staying under 100 days for the last 2 years, which states that the company’s products are sitting on the shelves for a quite long period per a year. However, a decrease in 22% for the last fiscal year when the period fell from 133 to 104 days shows that the company’s strategy of attracting people’s attention to the product, as well as positive price and advertising strategy is working and may lead the company to the positive outcome in many positions of the company’s performance for the next several years.

Payables’ turnover period increased twice for the last year, when it was 2 days in 2012 and became 4 days in 2013. The increase in ratio shows that Burberry’s management is able to pay of suppliers at a faster rate than it was in the previous fiscal year.

The company’s gearing ratio can be considered less risky as it was in 2012 when the ratio became 4% compared to the last fiscal year when it was 8%. The ratio describes the level of the company’s leverage which has increased twice for the last year.

P/E ratio increased by 64% for the last year when it was 2.2 in 2012 and became 3.6 in 2013. This positive result shows that investors are to pay more than expected per dollar of earnings, as well as they expect higher growth in the future.

An increase by 8% in Burberry’s sales reflects that the company has chosen a good strategy for the nearest period of time; the year was ended with minimum of the returns of goods by the customers, as well as the allowances for damaged or missing goods.

Operating profit decreased by 9% in 2013 when it became £345.8 compared with 2012, which was £376.9. It means that Burberry earned less profit from a company’s normal core business operation in the last fiscal year, which gives its management a signal in reconsidering operational strategy for the future of the company.

Share price decrease by 3% in 2013 compared to 2012 states that the company's investors decided to sell off their business to the low bidder. That means that the company is experiencing several difficulties in asset use efficiency and financial leverage that must be improved in the future.

Question 6

In order to assess which aspects of the company's performance have played a key role on the change in its profitability, as well as whether there are such factors or not, it is necessary to use the DuPont analysis technique. The DuPont analysis shows that ROE is affected by three things, which are operating efficiency, asset use efficiency and financial leverage. Thus,

$$ROE = \frac{Profit}{Sales} \times \frac{Sales}{Assets} \times \frac{Assets}{Equity}.$$

$$ROE_{2013} = \frac{298.2}{1,998.7} \times \frac{1,998.7}{1,746.2} \times \frac{1,746.2}{1,052.8} = 0.15 \times 1.14 \times 1.66 = 0.28,$$

$$ROE_{2012} = \frac{261.2}{1,857.2} \times \frac{1,857.2}{1,610.6} \times \frac{1,610.6}{891.4} = 0.14 \times 1.15 \times 1.81 = 0.29.$$

The company's ROE for the last fiscal year is lower by about 3% comparing to the previous fiscal year. Using the DuPont analysis it is possible to outline the part of the business that is underperforming. Operating efficiency is measured by profit margin, which is the interrelation of profit to sales. Asset use efficiency is measured by total asset turnover that is the ratio of sales to assets. Financial leverage is measured by the equity multiplier and related to the ratio of assets to equity. Considering the given indexes, it is possible to state that asset use efficiency (1% decrease) and financial leverage (8% fall) were inefficiently used by Burberry's management in the last fiscal year. In addition to this, operating efficiency has showed an increase to 7%, which is a positive growth for the company.