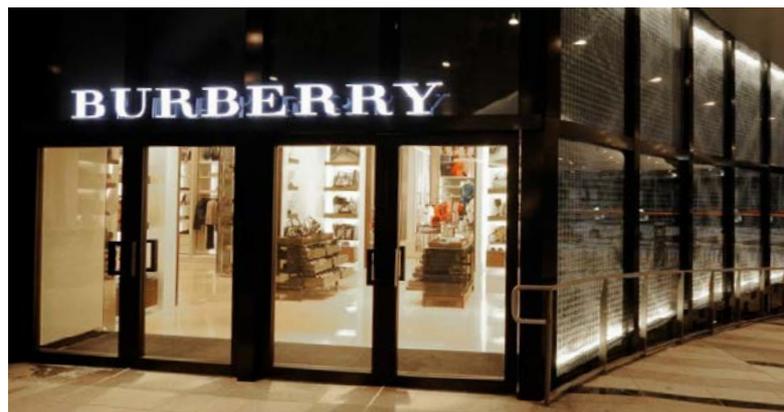


Case Study 3:

Burberry



For most of its history, Burberry has been a high-end success story, with its clothing range often seen as the epitome of traditional 'English' attire. This perceived image has allowed the company to sell a considerable amount of its products in overseas markets. The extent to which Burberry has made an impact in those markets is underlined by the widespread coverage their first quarter results received in July 2014.

In fact it was one of the most reputable publications in the world of business, The Wall Street Journal, who highlighted one of the major factors that has been affecting Burberry so badly – the strength of the British Pound (“GBP”). The WSJ reported that “the company expects currency depreciations to reduce full-year retail profit by £55 million. The company had thought in May that the currency hit would be only £40 million.”

One particular comment from Burberry’s Chief Financial Officer is quite remarkable, and is worth reporting in full:

“The health of the business remains strong, but currency headwinds have increased. As we continue to grow the business globally, the FX impact in [fiscal year 2015] will be bigger, too.”

The comments are revealing.

- The estimated full-year effect of the strong Pound had to be revised (to GBP 55 million) just two months after the original estimate (40 million) was announced – a clear sign that the company had not hedged against further adverse currency movements.
- The suggestion by the CFO that the currency impact on the following year’s revenues would be even bigger should have caused alarm bells to ring among their shareholders. An admission that no currency hedging was undertaken, and no effective risk management policy was in place, was bad enough, but the CFO’s comment seems to confirm that the company had learned nothing from the previous year’s problems, all of which were preventable.

There is a further irony in the Burberry situation – the exchange rate losses are far larger than the new Chief Executive’s reported annual salary of GBP 20 million, yet it is the latter that has been attracting all the criticism.

If you would like to discuss Burberry in more detail, or to hear about ways to control and manage your own exchange rate risks and exposures, please e-mail us by clicking [here](#).