

Exit IG Design: Supply chain uncertainty could hamper the immediate turnaround

Company:	IG Design Group (IGR LN)	Market Cap:	£71mio
Industry:	Gift packaging/craft	Net cash:	\$40mio
Country:	US, UK, worldwide	Revenue:	\$1bn
Date:	25 th April 2022	Net Income:	\$0mio (0%)
Dividend:	-	Free Cash Flow:	\$0mio (0%)
Entry:	£59mio	Exit:	£69mio

The macro is not clear cut

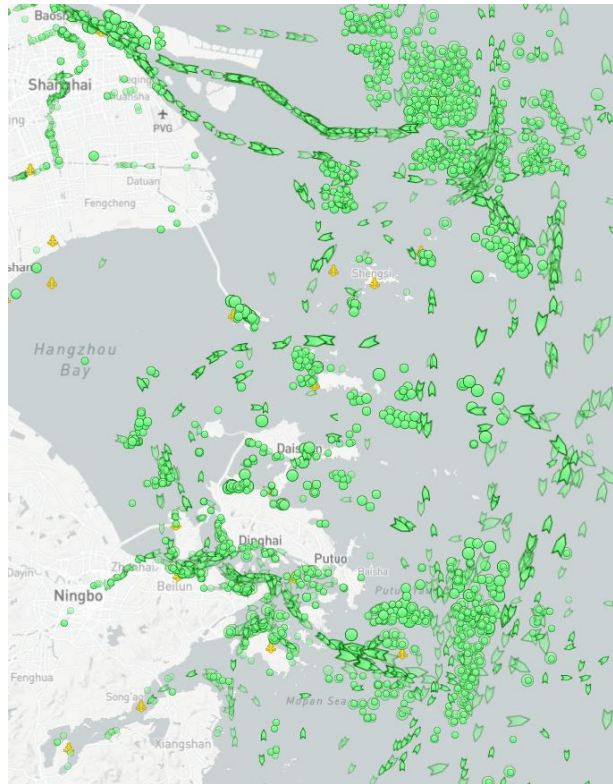
One of the main factors that determine the success of the turnaround of IG Design Group are the election of a new CEO and CFO as well as easing supply chains. The new CFO has been the trigger for me to purchase shares. However, in recent weeks signs emerged that supply chains and input costs could become worse before they get better. On the one hand, it was Walmart announcing to offer first time truckers \$110k salaries¹. On the other hand, the latest US PPI print for the month of March indicated a 5.5% m-o-m increase in transportation costs. The final straw was then China with its latest intense lockdown in the Shanghai region, which they wouldn't ease... While the Shanghai lockdown won't affect US supply chains immediately, they will do so with a lag. According to Windward Intelligence, the Chinese port congestion last year took around 5-6 months to recover from restrictions². Windward also notes that congestion outside China's ports doubled from 260 vessels in February 2022 to 506 vessels in April 2022, representing 27.7% of all container vessels waiting outside ports worldwide³. In comparison, this figure was only 14.8% in February.

¹ <https://www.wsj.com/articles/walmart-raises-pay-to-attract-truck-drivers-11649336400>

² <https://twitter.com/WindwardAI/status/1506661769590231054>

³ <https://windward.ai/blog/chinese-port-congestion-stalls-container-vessels-worldwide/>

Container vessels at anchor outside of Shanghai, Ningbo ports



Source: MarineTraffic.com

Remember Studio Retail Group...

When Studio Retail Group posted a poor trading statement in January 2022 and defaulted shortly after, it was then largest shareholder and UK's retail magnet Mike Ashley (Fraser Group) who held over 28% of the shares and bought the company out of administration for just £26.8mio in cash – after getting rejected to acquire the business for £143mio in 2019. In the case of IG Design Group, the largest shareholder is the founding Hedlund Family with over 23% of all shares outstanding. Given the somewhat similar business model, I began to feel nervous about a repeat of the Studio Retail Group default saga in the case of IG Design Group with the Hedlund Family benefitting from the default by buying up the entire company for small change out of administration. This would actually make sense to do... Or why wouldn't they buy shares at the moment? Amidst all this uncertainty I decided to close the position out and wait for more clarity to emerge.



Legal Disclaimer

The contents of this publication have been prepared solely for the purpose of providing information about AozoraStep Capital LLP and the services and products it offers, which are targeted for professional investors only. The opinions and views expressed are those of AozoraStep, may change without notice and should not be construed as investment, tax, legal or other advice. AozoraStep does not guarantee the completeness and accuracy of the information provided and all content can become out of date. Products or services mentioned on this site are subject to legal and regulatory requirements in applicable jurisdictions and may not be available in all jurisdictions. Accordingly persons are required to inform themselves and observe any such restrictions. In respect to investments described on this website, past performance is not a guide to future performance. The value of investments and the income of any financial instruments mentioned on this website may fall as well as rise and may have tax consequences. The performance of AozoraStep is based on a personal track record and audited by Siculo for the time period Q1 2019 - Q1 2021 only with further audits being done on an occasional basis. AozoraStep Capital LLP is currently not authorized by the FCA, but is in the process of authorization. AozoraStep Capital LLP is registered in England and Wales with registered number OC436835. Registered Office: 57 Lansdowne House, Berkeley Square, London W1J 6ER, United Kingdom. Reproduction or distribution of any materials obtained in this presentation or linking to this presentation without written permission is prohibited.