AozoraStep

Exit Studio: Dirt cheap, but it can always get cheaper

Company:	Studio Retail Group (STU LN)	**Market Cap:**	£90mio	
Industry:	Online retailer	**Net debt:**	£40mio (+£225mio securitized debt)	
Country:	UK	**Revenue:**	£550mio	
Date:	2nd February 2022	**Net Income:**	£28-30mio	(5.5%)
Dividend:	-	**Free Cash Flow:**	£30mio	(5.5%)
Entry:	£143mio	**Exit:**	£140mio	

Exit: Studio sold mid-January

As mentioned, I did not consider Studio Retail Group a turnaround and not "a business I love, but don't fall in love with". However, I found the valuation too cheap to ignore and bought a small stake at the beginning of January. Why did I sell shortly after on January 20th/21st? I sold due to weak price action of competitors after their results.

Decent results of competitors, but weak price action

Studio Retail Group's share price moves pretty much in line with that of ASOS, Boohoo and N Brown, with N Brown being the most similar to Studio. Although the results of ASOS, Boohoo and N Brown were not bad, the guidance and outlook were very cautious. Their share prices either moved higher briefly and then gave up the gains or even declined after the trading update. On 20th January N Brown actually sold off after the results and that despite lower net debt guidance. This was the trigger for me to sell Studio Retail Group, as N Brown is less leveraged and pays its client's debt by its own cash for a good amount – different to Studio that uses its securitization debt facility in full. At the same time, Studio has much higher debt recovery rates, which puts the company at risk, if there is a downturn that those recovery rates worsen a lot more than those of N Brown.

57 Lansdowne House, Berkeley Square, London W1J 6ER
www.aozorastep.com · david@aozorastep.com

Studio's weak results on January 31st

On January 31st, Studio reported a very weak trading update, reducing its pre-tax profit guidance once again towards £28-30mio, despite Q4 being their strongest quarter. Studio seemed to have experienced the worst case scenario, as the supply chain chaos has led them to ship goods at higher prices to be ready for the pre-Christmas sales season, but then ended up selling less than expected, having to sell those more expensively shipped goods at higher discounts. At the same time, Q4, when Studio usually makes 40% of their revenues, their customer numbers remained flat at 2.3mio, while the revolving credit facility is fully drawn at £50mio.

The problem of supply chains

The trading updates of all e-commerce firms had one thing in common, the obvious: Inflation due to supply chains. The guidance was also the same, which was cautious for the rest of the year. This is mostly due to shipping costs and contracts that are generally in place for 1-2 years. The great thing about Studio is that the company's shares are illiquid and they provide fewer market updates. Because of that exact reason, I was lucky to have missed the 40% decline in Studio's share price after their update. For the same reason, I'm now looking forward to a potential easing of supply chains to buy back into Studio or any of the other names. Perhaps the very cheapest company that got hit the hardest by supply chains, is IG Design Group, which is valued at £92mio with no debt and $1bn in revenues. In this sense, I keep all of these five companies closely on my radar, as any positive update could signal the turnaround for those hit the hardest…

57 Lansdowne House, Berkeley Square, London W1J 6ER
www.aozorastep.com · david@aozorastep.com

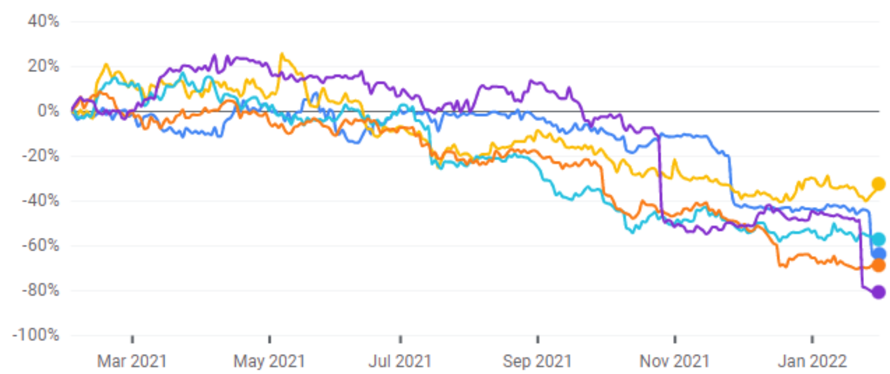
Studio Retail Group vs. competitors' stock price performance

Studio Retail Group PLC

GBX 105.13 ↓63.94% -186.38 1Y

Feb 2, 1:53:34 PM UTC · GBX · LON · Disclaimer

1D 5D 1M 6M YTD 1Y 5Y MAX



Studio Retail Grou...	GBX 105.13	-GBX 186.37	↓63.94%
N Brown Group plc	GBX 41.78	-GBX 20.22	↓32.61%
ASOS plc	GBX 2,155.00	-GBX 2,899.00	↓57.36%
Boohoo Group PLC	GBX 106.75	-GBX 236.75	↓68.92%
IG Design Group P...	GBX 95.00	-GBX 403.00	↓80.92%

Source: Google Finance

57 Lansdowne House, Berkeley Square, London W1J 6ER
www.aozorastep.com · david@aozorastep.com

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 Sedulo 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.

57 Lansdowne House, Berkeley Square, London W1J 6ER
www.aozorastep.com · david@aozorastep.com