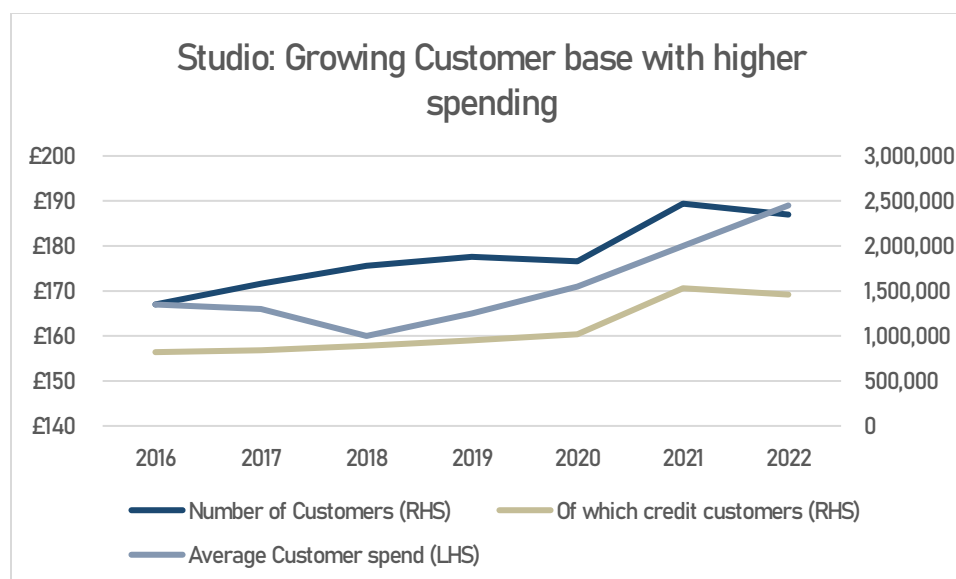


## Not a Turnaround, just dirt cheap: Studio

<b>Company:</b>	Studio Retail Group (STU LN)	<b>Market Cap:</b>	£143mio
<b>Industry:</b>	Online retailer	<b>Net debt:</b>	£21mio (+£225mio securitized debt)
<b>Country:</b>	UK	<b>Revenue:</b>	£550mio
<b>Date:</b>	11 <sup>th</sup> January 2022	<b>Net Income:</b>	£35-40mio (7%)
<b>Dividend:</b>	-	<b>Free Cash Flow:</b>	£40mio (7%)
<b>Entry:</b>	£143mio	<b>Target market cap:</b>	£250mio

### Introduction

Studio Retail Group is an online value retailer that offers a range of products from garden furniture to computer hardware to clothes and toys to UK customers. The company has been known as Findel before, a traditional catalogue retailer offering express gifts and education, before focusing on the online brand Studio. In 2016 the company had 1.4mio customers, £149 spend per customer and £225mio in product revenues. 5 years later, boosted by the pandemic induced lockdowns, increased its customer count to 2.5mio, with £180 spend per customer and £445mio in product revenues (excluding finance revenues). In the medium term, Studio targets to reach £1bn in annual revenue. Most of its products are being sourced from China and hence are relatively cheap, but also subject to logistics costs.



Source: Studio Retail Group Annual Reports

### Why so cheap?

Studio Retail Group has quite frankly been poorly managed. In the past the firm has continuously reinvented itself and needed to raise equity multiple times. The company has not paid out any dividends for at least a decade amid negative equity in their parent's entity's balance sheet. This has led to an exodus of shareholders and made the security extremely illiquid to buy and sell. Amid this history, Studio has also stopped caring about shareholders and don't even have an investor relations department, but have it outsourced with merely a telephone number provided. Mike Ashley's Frasers Group has tried taking the company over in 2019 by offering 162 pence a share, which was rejected – the same as the current share price, yet net assets have climbed by over 1/3 to £100mio. The over 30% stake was then partially sold in May 2021 when Studio Retail Group benefitted from a boost in sales due to the lockdowns. Since then Studio has had to cut its pre-tax profit guidance from £42-45mio to £35-40mio amid higher logistics costs, higher marketing costs and fewer new customers. This led to a revaluation of the company from £230mio to only £143mio, despite having close to zero net core debt and a positive equity balance on their parent's entity's balance sheet.

## What is fair value?

I have owned Studio Retail Group shares in the past and sold them more or less where I bought them, as signs emerged that the firm faces rising logistics costs. This was when the company was valued at £230mio. Now, this firm is valued at a mere £143mio, yet the recent Omicron variant has held a record amount of people at home, self-isolating. Recent year-end trading updates from competitors such as Next, Made.com and B&M European Value Retail S.A. showed a weaker y-o-y performance, but mostly beating expectations. At the same time, Trustpilot reviews for Studio continued to be high, despite Christmas sales season being over, indicating strong sales into January. Studio makes around 40% of their revenue in the 4<sup>th</sup> quarter of the year, hence strong trading in Q1 could help the firm surprise to the upside. Overall, I can't really say that I love this firm, which is usually a prerequisite before purchasing any stake ("love the business we invest in, but don't fall in love with the business..."). However, the current valuation makes little sense to me, as the company has cleaned up its balance sheet and could become a takeover target to turn this firm around. For these reasons, I purchased a small stake with a fair valuation that provides as much as 70% upside. I do not consider Studio as a real turnaround, but rather as an undervalued company and a short-term investment opportunity.



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