IMPERIUM CAPITAL

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Death of the traditional retailer or just poor operators?

Global Matters Weekly

6 December 2021

– **Matt Connor**

The last decade or so has seen traditional retail undergo a structural change. Rapid growth of e-commerce, everchanging consumer habits and increasing competition have all been cited as culprits responsible for the 'death of the high street', but the real culprit is bad management.

The onslaught of the pandemic last year witnessed the highest number of store closures in the UK since the global financial crisis[1], taking down household names such as Debenhams and Topshop's parent company Arcadia Group in its wake. The pandemic isn't wholly to blame for the failure of these businesses though, it was more of an accelerant, bringing forward the eventual demise of these badly run businesses.

Debenhams, for example, had already entered a pre-pack administration in 2019 and had been teetering on the edge on insolvency for a while prior to that, shedding its store estate and recording its largest loss in its 240-year history in 2018[2].Philip Green's Arcadia group suffered a similar fate to Debenhams, with the pandemic being the final nail in the coffin. Despite an ill-fated attempt to save the group with a CVA, Arcadia entered administration 8 months after the start of the pandemic, struck by the questionable management practices of Philip Green that BHS suffered a few years prior.

It is not all doom and gloom in the world of traditional retailers. Two of our holdings, Marks and Spencer and Halfords have proved that age is just a number, and it is possible to adapt to the modern age, despite being formed in the 19th Century. Halfords has undergone a massive transformation over the last few years. It's overhauled its website, expanded its services business and most recently pivoted into the Software-as-a-Service (SaaS) market, by launching its Avayler delivery platform with ATD in the US, ATD will use the software to schedule work and delivery of tires across 80,000 garages in the US. The market has seemed to recognise these positive changes, with the Halford's share price rising almost 30% in 2021 so far[3], combined with a full year profit upgrade and strong performance in the first half of Halford's financial year[4].

The last decade or so has seen traditional retail undergo a structural change.

The turnaround of M&S has been long and arduous and one that has been tough to endure as shareholders since 2014. Action on shrinking its massive store estate, getting the online proposition right and entering into a joint venture with Ocado in 2019 have all helped to change M&S' fortunes, whilst some rivals such as Debenhams and John Lewis have faltered. Exceptional interim results last month accompanied by a 40% profit upgrade on already increased guidance saw the share price soar, contributing to the 75% increase since the start of the year[3]. Despite the astronomical rise, we still see a lot of potential in M&S, with a simple 'sum-of-the-parts' valuation revealing 75% upside to the current share price of 240p5.

The market has failed to recognise value elsewhere in our portfolios, such as Ediston Property Investment Company, which specialises in retail parks and still trades on a discount to NAV despite strong performance across their portfolio. Their last quarter witnessed a 99.9% rent collection rate and NAV total return of over 4%. Footfall at retail parks remained resilient through the pandemic, with essential retailers as anchor tenants and the format enabling social distancing, as well as lending itself well to omni-channel retailing such as 'click and collect'.

As contrarian investors, unloved sectors provide us with a great opportunity to uncover undervalued investments that have been tainted by a negative view of a sector. Employing a bottom-up approach to investing allows us to discover quality, underappreciated investments at unjustifiable valuations

[1] *House of Commons Briefing Paper – Retail Sector in the UK, 25 May 2021*
[2] *The Times - Debenhams posts biggest loss in its 240-year history, 25 October 2018*
[3] *Bloomberg*
[4] *Halfords Group plc – Interim Results FY 2022, 10 November 2021*
[5] *Sum of the parts valuation – 18 November 2021 Momentum Global Investment Management Ltd*

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The Marketplace

- Global equities fell -1.4% last week
- Calls for fresh restrictions mounted across a range of countries, particularly around international travel
- Brent crude fell -3.9% over the week to $69.9 a barrel
- Gold fell -1.1% to $1783.3 per ounce.

Market Focus

US

- US equities fell -1.2% last week
- ADP's report of private payrolls for November came in at around expectations with a +534k gain vs +526k expected
- Weekly initial jobless claims for the week ending November 26th came in at a stronger-than-expected 222k vs 240k expected
- Despite the headline nonfarm payrolls missing the mark at +210k vs expectations of +550k, the underlying data painted a healthy labour market picture, with the unemployment rate declining to 4.2% and participation increasing to 61.8%
- US pending home sales were up +7.5% in October vs +1.0% expected
- The Conference Board's consumer confidence measure in November fell to its lowest since February at 109.5 vs 110.9 expected
- The ISM manufacturing reading for November saw the headline number come in roughly as expected at 61.1
- The ISM services index set another record high at 69.1 for November.

Asia/Rest of The World

- The benchmark Global Emerging Markets index returned 0.2% last week
- Japanese equities fell -1.3% over the week
- Chinese equities fell -2.9% last week
- China's official November PMI data came in stronger than expected, with the manufacturing PMI at 50.1 vs 49.7 expected and 49.2 in the previous month. The non-manufacturing PMI came in at 52.3 vs 51.5 expected and 52.4 in the prior month
- Poland moved to toughen up their domestic restrictions with a 50% capacity limit on restaurants, hotels, gyms and cinemas
- South Korea reported that CPI in November rose to its fastest since December 2011, at +3.7% vs expectations of +3.1%

Europe

- European equities returned -0.4% last week
- Euro Area inflation rose to its highest level since the creation of the single currency, with the flash estimate for November up to +4.9% vs +4.5% expected.
- November CPI readings from France and Italy surprised to the upside at +3.4% and +4.0%, respectively vs expectations of +3.2% and +3.3%
- Germany reported that inflation had risen to +6.0% in November on the EU-harmonised measure up from +4.6% in October. The German national measure also rose to +5.2% vs +5.0% expected, its highest reading since 1992
- The unemployment rate for the Euro Area fell to a post-pandemic low of 7.3% in October, in line with expectations. However, producer price inflation increased faster than anticipated to +21.9% vs +19.0% expected
- German unemployment fell by -34k in November vs -25k expected
- The Euro Area manufacturing PMIs came in at 58.4 vs 58.6 flash reading
- The European Commission's economic sentiment indicator for the Euro Area dipped to 117.5 in November as expected, its weakest level in 6 months.

UK

- UK equities rose 1.4% last week
- The UK manufacturing PMI came in at 58.1 vs the flash reading of 58.2
- Mortgage approvals fell to 67.2k in October vs expectations of 70k, their lowest level since June 2020.

Asset Class/Region	Currency	Currency returns			
		Week ending 3 Dec. 2021	Month to date	YTD 2021	12 months
Developed Market Equities					
United States	USD	-1.2%	-2.5%	22.0%	25.0%
United Kingdom	GBP	1.4%	0.4%	15.3%	14.6%
Continental Europe	EUR	-0.4%	-1.0%	18.0%	20.6%
Japan	JPY	-1.3%	0.5%	10.7%	12.6%
Asia Pacific (ex Japan)	USD	-0.8%	-0.2%	-4.1%	-0.1%
Australia	AUD	-0.5%	0.0%	13.9%	13.6%
Global	USD	-1.4%	-2.2%	16.3%	19.4%
Emerging markets equities					
Emerging Europe	USD	4.5%	2.0%	15.6%	22.2%
Emerging Asia	USD	-0.3%	0.1%	-5.6%	-1.3%
Emerging Latin America	USD	2.1%	1.9%	-11.3%	-7.4%
BRICs	USD	-1.2%	-1.0%	-10.6%	-7.7%
China	USD	-2.9%	-2.4%	-20.2%	-18.8%
MENA countries	USD	-2.8%	0.6%	25.7%	26.6%
South Africa	USD	7.1%	4.7%	0.8%	5.4%
India	USD	0.6%	0.7%	20.8%	30.0%
Global emerging markets	USD	0.2%	0.5%	-3.3%	0.9%
Bonds					
US Treasuries	USD	0.7%	1.0%	-1.5%	-1.2%
US Treasuries (inflation protected)	USD	0.0%	0.4%	5.9%	7.0%
US Corporate (investment grade)	USD	0.9%	1.0%	-0.4%	0.2%
US High Yield	USD	0.6%	0.3%	3.7%	5.1%
UK Gilts	GBP	0.6%	0.9%	-2.4%	-0.3%
UK Corporate (investment grade)	GBP	0.4%	0.7%	-1.7%	0.1%
Euro Government Bonds	EUR	0.4%	0.5%	-1.7%	-1.5%
Euro Corporate (investment grade)	EUR	0.5%	0.5%	-0.5%	-0.3%
Euro High Yield	EUR	0.3%	0.3%	2.9%	3.3%
Japanese Government	JPY	0.2%	0.2%	0.1%	0.0%
Australian Government	AUD	0.7%	0.6%	-3.1%	-2.7%
Global Government Bonds	USD	0.4%	0.7%	-5.5%	-4.7%
Global Bonds	USD	0.3%	0.7%	-4.8%	-4.1%
Global Convertible Bonds	USD	-2.1%	-2.0%	-4.6%	-1.5%
Emerging Market Bonds	USD	1.8%	1.8%	-4.8%	-3.2%

Source: Bloomberg. Past performance is not indicative of future returns

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Asset Class/Region	Currency	Currency returns			
		Week ending 3 Dec. 2021	Month to date	YTD 2021	12 months
Property					
US Property Securities	USD	-0.3%	-1.3%	31.4%	33.2%
Australian Property Securities	AUD	-1.8%	-0.3%	15.8%	14.2%
Asia Property Securities	USD	-1.8%	-0.4%	-2.3%	-3.8%
Global Property Securities	USD	-3.3%	-0.9%	16.5%	18.4%
Currencies					
Euro	USD	0.1%	0.4%	-7.5%	-6.9%
UK Pound Sterling	USD	-0.7%	-0.5%	-3.0%	-1.8%
Japanese Yen	USD	0.3%	0.8%	-8.4%	-7.9%
Australian Dollar	USD	-1.7%	-1.7%	-8.9%	-5.9%
South African Rand	USD	0.8%	0.2%	-9.0%	-5.8%
Swiss Franc	USD	0.5%	0.7%	-3.6%	-2.9%
Chinese Yuan	USD	0.3%	0.2%	2.4%	2.6%
Commodities & Alternatives					
Commodities	USD	-3.0%	-2.8%	32.7%	40.2%
Agricultural Commodities	USD	-1.7%	-0.7%	30.8%	40.7%
Oil	USD	-3.9%	-4.8%	34.9%	43.5%
Gold	USD	-1.1%	-0.1%	-5.9%	-3.0%
Hedge funds	USD	-0.3%	-0.4%	3.3%	5.2%

Source: Bloomberg. Past performance is not indicative of future returns

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