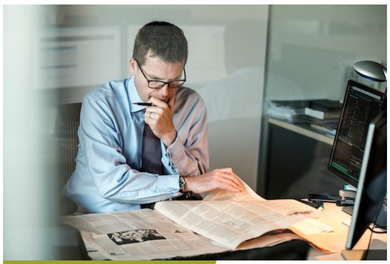

Friday Morning Coffee

Nr. 52 — Panic in the boardroom!

The clothing brand Superdry, known for its pseudo-Japanese designs, is one of the fairy tales of the UK fashion industry. The co-founder of the company, Julian Dunkerton, has indeed all the characteristics of a modern corporate hero. He started his career selling clothes on markets. In 2003, he went on to found Superdry that became rapidly a hype fashion brand finding the favors of celebrities including David Beckham. The company went public in 2010 listing on the London Stock Exchange. In early 2015, Dunkerton stepped down as CEO but stayed as director. In April 2018, he left Superdry to concentrate on his other interests notably to lobby against Brexit. At that moment, he also sold part of his shares in Superdry to reduce his holding to 18%. **Under his tenure, Dunkerton built Superdry from scratch to an 880 million GBP turnover business with close to 1000 shops worldwide.**

However, instead of living happily ever after, business matters have been getting somewhat complicated for Dunkerton over the last 12 months when it comes down to Superdry. The most apparent sign of trouble is the plummeting share price, down more than 70% since the departure of its iconic founder.

Source: Bloomberg

At this stage of the narrative, **we need to provide you with an important disclaimer. We are long Superdry in our client portfolios since Q4 2018 and have been increasing our position during the recent weeks. When we started investing in November last year, we were attracted by the brand value, a profitable business and the strong balance sheet of the business.** A valuation of below 8 times forward earnings is in our eyes simply too low compared to the quality of the business.

What followed next was a boardroom drama. Instead of sitting on his hands, Dunkerton took the decision to get back in the driver seat of Superdry and attempt to turn the fortunes of the company around. In hindsight a very clever move was that he launched a website www.savesuperdry.com where he explained what went wrong at the company since he left, and where he made the case for how to bring the brand back to its previous glory. Then he used his and his co-founder's shareholding to call in an extra-ordinary shareholder's meeting in order to get back on the Board of the Superdry. What followed was an epic battle between the existing management opposing a comeback of its founder and Dunkerton. Each party wanted to convince the institutional shareholders like ourselves of their position for this all-important vote. At ECP, we view our shareholdings as ownerships into the underlying businesses. These ownerships give us many rights like the right for a dividend and also a right to vote on shareholder meetings. In this specific case, it was not an easy call and we had meetings with both the company management and Mr Dunkerton before deciding on our vote.

Dunkerton appeared to face an uphill struggle as he had the biggest proxy voting advisors, like for example ISS, recommending to vote against his comeback. However, he made a case with a plan of measures he would take at the helm of Superdry like moving back to fewer collections per year, making the supply chain faster, expanding the offer, scrapping plans of children's wear and building out the online presence. What convinced us ultimately to vote for Dunkerton was his passion for the business, his extensive knowledge on the brand Superdry and how its' customers tick. We also like the simple fact that he, unlike the management in charge, has real skin in the game with an 18% ownership stake in the company.

What happened at the EGM on Tuesday last week can be qualified as a Boardroom coup and took the City by surprise. First, Dunkerton won by a whisker. That win was followed by the resignation of most of the Board and top management of the company. Dunkerton took over as interim CEO and is currently using the power vacuum in Superdry to put his troops in place. The stock price continued to weaken as **investors are concerned about the cost and potential delays in the revival of Superdry. We believe that while fashion is indeed a risky business and Dunkerton's challenge should not be underestimated, he is the right man to bring back the company in the spotlight. The coming quarters will be interesting for us as shareholders and we'll follow the steps of Mr. Dunkerton closely and judge him in his ability to deliver on his promises.**

I wish you a nice weekend,

Léon

Léon Kirch, CFA
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