

We invest in winners. This means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

Zalando SE Convertible Bond 2020 (25/27)

Zalando was founded in 2008 and is now a leading online platform for fashion and lifestyle in Europe. Around 50 million customers with an average shopping cart value of 60 euros and five orders per year contribute to a gross merchandise volume (GMV) of 15 billion euros. Since its IPO in 2014, the Berlin-based company has recorded double-digit annual growth rates. During the coronavirus pandemic, sales even increased by 60% to over 10 billion euros. In 2021, it was admitted to the DAX 40. Since then, sales have stagnated, and operating profitability has remained at a low single-digit level. In addition to the inflation-induced slump in consumption, Chinese competition is also making headway. Shein and Temu are gaining market shares. The expansion of B2B businesses and the evolution of a leading European e-commerce ecosystem should bring new momentum.

We are not interested in an equity investment in Zalando. Nevertheless, Zalando's internal financing capacity suffices for an investment in the bond. Despite high marketing expenses that recently accounted for 7% of sales, Zalando is profitable and generates good operating cash flows. The company has no interest-bearing financial liabilities to credit institutions but a liquidity position of 2.5 billion euros. This includes liabilities from a bond conversion issued in two tranches in 2020 with a total nominal amount of EUR 1

billion. This piqued our interest. On the one hand, the conversion option is far out of the money. The share price is currently 25 euros; the conversion price is 88 euros (Tranche A) or 92 euros (Tranche B), which corresponds to a conversion premium of 43% or 50% above the reference share price at that time of 62 euros. On the other hand, the interest rate reversal caused the bond price to fall sharply because Tranche A only plans for an annual interest warrant of 0.050% and Tranche B for 0.625%. The convertible bond is subordinated, unsecured, and divided into 10,000 parts of €100,000 each. It is due on 6 August 2025 (Tranche A) and 6 August 2027 (Tranche B) at 100% of the nominal value. If an acquisition of control involving at least 30% of the Zalando voting rights occurs, the creditors may call their shares immediately. A nominal value reduction or a cancellation of the interest warrant is excluded under prospectus law if Zalando should undergo a loss year. In recent weeks, we purchased the short-term bond at an average price of 94.3% of the nominal value. This corresponds to an attractive return of just under 5% p.a. until maturity in the coming year, with a simultaneously low credit and duration risk. Zalando is evidently of the same opinion: on 7 May 2024, the company announced the repurchase of the 2025 tranche on the open market or via privately negotiated transactions with a volume of up to 100 million euros.

Sincerely yours



J. Henrik Muhle



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