

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)

Founded in 2008 in Berlin, Zalando SE is a leading European online platform for fashion and lifestyle. The company's 50 million active customers with an average shopping cart value of around EUR 56 and five orders each year contribute to a gross merchandise value (GMV) of roughly EUR 14 billion. Zalando has regularly posted double-digit growth rates since its IPO in 2014. During the coronavirus pandemic, Zalando enjoyed two particularly positive years: Online retail boomed and revenues grew by 60% to over EUR 10 billion. In 2021, it was included in the DAX-40 index of leading German shares and the company embarked on a share buyback program with a volume of EUR 200 million. However, this was at double the current share price, because consumer spending sentiment has declined significantly since then, as life has returned to normal and people are no longer cooped up inside their homes, while inflation has ramped up at the same time. Recent forecasts for 2022 pointed to zero growth and operating profit of EUR 180 million. Zalando reacted to this situation and announced layoffs. The company's capacity to finance itself internally is sound. The EBIT margin has approached 5% in recent years, as a function of very high marketing costs, which most recently accounted for 9% of revenues. Zalando has liquidity of EUR 1.5 billion and no interest-bearing financial liabilities to banks. This figure is offset by liabilities from a converti-

ble bond issued in two tranches in 2020 with a total nominal amount of EUR 1 billion. The tranches were offered to institutional investors by way of an accelerated bookbuilding process. Shareholders' subscription rights were excluded. The convertible bond sparked our interest. First, the conversion option is trading well out of the money. The current share price is EUR 38 and the conversion price for each tranche is EUR 88 (Tranche A) and EUR 92 (Tranche B), which corresponds to a conversion premium of 43% and 50% higher than the reference share price of EUR 62 at the time. Secondly, the interest rate reversal pushed the price of the bond down sharply because Tranche A provides for only a 0.050% annual coupon and Tranche B for 0.625%. The convertible bond is subordinated and unsecured, and it is divided into 10,000 units of EUR 100,000 each. It matures on August 6, 2025, (tranche A) and on August 6, 2027, (tranche B) at 100% of the nominal value. If an acquisition of shares results in the control of at least 30% of Zalando's voting rights, the bondholders can accelerate the maturity of their shares immediately. A reduction of the nominal value or a default of the coupon is excluded by the prospectus if Zalando should experience a one-year loss. We acquired a nominal bond volume of EUR 50 million at 88% (tranche A) and 79% (tranche B) of par in November 2022. This represents a yield of 6% p.a. until maturity.

Sincerely yours



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