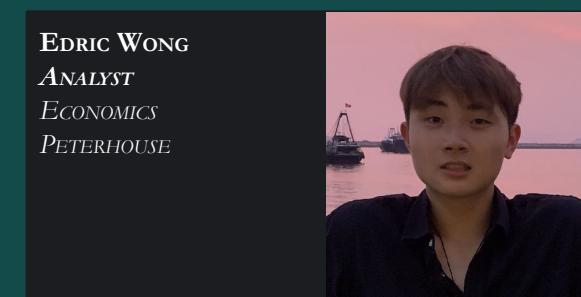
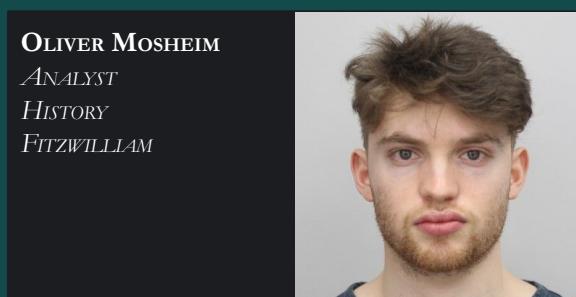




**FRASERS (FRAS.L )  
CAMSIF CR – LONG  
RECOMMENDATION**

**FRASERS  
GROUP**

# THE CONSUMER STAPLES TEAM



**SPORTS  
DIRECT**



F R A S E R S  
G R O U P



**Jack Wills**  
EST. GREAT BRITAIN

# EXECUTIVE SUMMARY

## Company Overview

- Well known and respected brands with strong identities, have enabled it to maintain strong margins despite difficult conditions

## Rationale

- Diversification allows it to fair well in tough market conditions
- Growth through acquisitions, while maintaining strong balance sheet

## Valuation

- Has posted consistent strong earnings compared with peers
- Similar PE ratio despite growth

## Conclusion

- An underexposed part of the CamSIF portfolio
- Strong growth opportunities with downside protection



**SPORTS  
DIRECT**



F R A S E R S  
G R O U P



**Jack Wills**  
EST. GREAT BRITAIN

# FRASERS COMPANY OVERVIEW

## Company Description

- Frasers group operates a diversified portfolio of sports, fitness, premium lifestyles and luxury brands in over 20 countries
- The Group is moving online to unlock new e-commerce capabilities and access a wider customer base. This is mainly done by strategic acquisitions.
- The company is unique in its wide consumer base, which enables the firm to gather big data on consumer preferences
- The company's ethos is to build shareholder value in the medium to long term, valuing consistency.
- The company is founded in 1982 and its main office is situated in London.
- The CEO, Michael Murray, was formally appointed on 1 May 2022. But Michael has been working in Frasers since 2015.

## Key Highlights

Revenue grew **43.6%**  
to **£1,056.6m**

P/E ratio: **14.6x**  
Compared to peer average: 15.3x

**769** Stores in the UK  
**1183** Stores Worldwide

Operating in **25** countries

## Brand Portfolio

- Having stakes in 38 brands in total, Frasers group has a well-diversified portfolio.
- The biggest brands that Fraser owns (in terms of sales & popularity):
  - 18montrose, Evans Cycles, Flannels, Frasers, Game, House of Frasers, Jack Wills, sofa.com, sports direct, USC



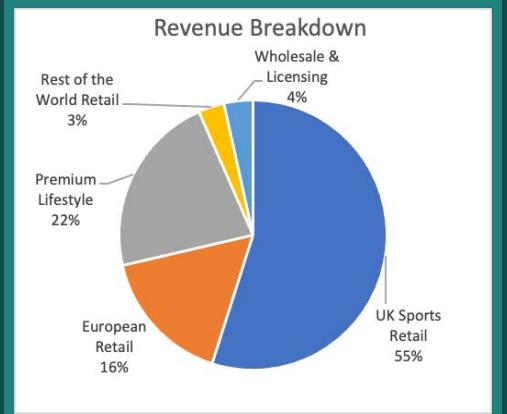
## Product Portfolio

Frasers Group has a diverse range of products:

- Sportswear
- Furniture
- Gaming equipment
- Cycling equipment
- Designer clothing
- Casual wear

But the core pillars were:  
Sports, Lifestyle, Luxury

## Revenue Breakdown



# INDUSTRY OVERVIEW



# INDUSTRY - Competitors

- Frasers main competitor is John Lewis.
- The other competitors in the industry are Marks and Spencer, Harrods, Debenhams (Boohoo group), Selfridges and Fenwick.
- Department stores are in competition with mass merchandisers, outlet stores, internet retailers, mail-order retailers, off-price stores, specialty stores, and home shopping networks.



# INDUSTRY – Pricing

## Unique Pricing Architecture

- 51% of Fraser's price range beneath the £40 mark, a low percentage compared to direct competitors.
- Emphasis on £40-80 price range and a steady drop-off from there, as opposed to Debenhams' swift drop-off
- The types of products people buy from Frasers differ greatly from what is being bought at Debenhams or Marks & Spencer. This is reflected in the average price point: at Frasers it is £65, while Debenhams and Marks & Spencer are a more modest £46 and £49.



# INDUSTRY- Communications

- Frasers is a solid and innovative communicator, with a wider Twitter audience than Debenhams or John Lewis.
- Frasers send between eight and sixteen email newsletters a month (with the latter figure being around sales periods).



# Comparables

Brand	John Lewis	Boohoo	M&S	Frasers
2022 Revenue	£10.9bn	£2bn	£10.9bn	£4.6bn
2022 Net Income	-£67.8m	-£4m	£312m	£250m
Profit Margin	N/A	N/A	2.7%	5.4%
Net Profit 2022-19	-£450m	£285m	£334m	£638m
Market Cap	N/A	£560m	£2.5bn	£4bn

- Frasers is the only one of the 4 to have made a profit in every financial year since 2019, including this half year (pretax net income)
  - This shows the resilience of the brands, and the strong management behind the company



# COMPANY OVERVIEW



# FRASERS ACQUISITION TIMELINE

1982

Mike Ashley officially open his first store. And by the late 1990s, they had over 100 stores over the UK

March 2004

The group acquired Karrimor for a reported £5 million.



2008

The group started trading under the name: Sports Direct

February 2019

The group acquired Sofa.com



August 2019

The group acquired Jack Wills for £12.7 million



August 2020

The group acquired DW sports fitness for £37 million



February 2022

The group purchased some assets of the Studio Retail Group

1996

The group acquired the rights to the Donnay brand for £3.9 million

February 2004

The group acquired Dunlop Slazenger for around £40 million.



2006

The group acquired Kangol for an estimated £12 million.



August 2018

The group acquired House of Frasers for £90 million



October 2018

The group acquired Evans Cycles in a pre-pack administration deal



2019

The group officially rebranded themselves from Sports Direct to Fraser Group

June 2022

The group acquired the IP of Missguided and its sister company Mannace for £20 million.



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G R O U P



# FRASERS KEY ACQUISITIONS

HOUSE OF FRASER  
SINCE 1849

GAME.

studio

2017

2018

2018

2019

2019

2022

2022

FLANNELS

EVANS  
CYCLES

Jack Wills  
EST. GREAT BRITAIN

MISSGUIDED



FRASERS  
GROUP

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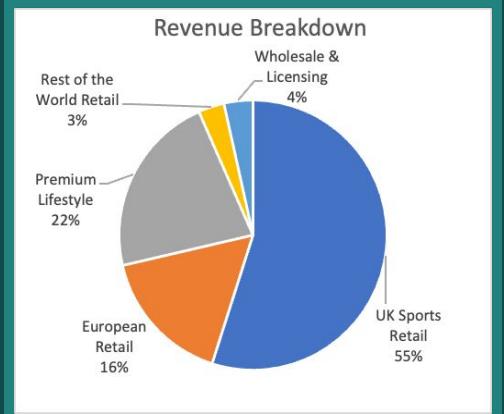
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## Revenue Breakdown



# FRASERS MARKET VIEWS



- 9 December: Strong Half-Year Earnings Results
- 2 February: Studio Retail into Administration. Subsequently Rescued by Frasers.
- 21 July: Record Profits Reported
- 23 October: Further Strong Investment in Retail Partners



F R A S E R S  
G R O U P

# THESIS



# FRASERS THESIS POINTS

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G R O U P



- Portfolio diversification as a strategy, a means of protecting investors, outperforming competitors, and risk management:

Frasers operates around 1100+ stores, of which 700+ are located within the UK, across its 38 brands.

- Historical performance – Acquisitions:

Single store in 1982 → acquisition spree in the 2000s (acquiring its own brands, thus facilitating a more stable supply chain & keeping production costs low) → company growth

- Recent performance – navigating the pandemic and the current macroeconomic environment:

Frasers Group plc's share price has soared 275% in the last three years. The company reported adjusted pre-tax profits of £344.8 million for the year to April.



# FRASERS THESIS POINT #1 – DIVERSIFICATION

Whilst its sports retail division accounts for the majority of sales it has moved into fashion, beauty, and electronics. Frasers' ultimate aim is to become the largest sports goods retailer in Europe but it has also built stakes in businesses in the US and Malaysia.

Under Ashley's leadership up to May 2022, the group has been focused on acquisition and strategic takeovers:

F R A S E R S   G R O U P					
Agent Provocateur	ANTIGUA	CAMPRI	carlton	CRUISE	DONNAY
EVANS CYCLES	EVERLAST	FLANNELS	FRASERS EST 1849	GAME	gelert
HOUSE OF FRASER	JACK WILLS	Lillywhites	LONSDALE LONDON	MUDJOYFOX	NEVICA
NFL	sofa.com	SPORTS DIRECT	USC	Firetrap	GUL
karrimor	LA GEAR	lovell sports	Slazenger	Sondico	SOULCAL & CO CALIFORNIA
TRUK	USA PRO	van milder	MISSGUIDED	I SAW IT FIRST	studio
sportmaster	SNEAKERBOY				

F R A S E R S  
G R O U P



# FRASERS THESIS POINT #2 –ACQUISITIONS

- Acquired I Saw It First in July 2022
- Acquired Missguided from administration in June 2022
- Acquired Studio Retail from administration in February 2022
- Acquired upmarket fashion retailer Psyche in January 2021
- Acquired gym chain DW Fitness in 2020 to compliment its Sports Direct Fitness offering
- 36.8% stake built in luxury fashion brand Mulberry from beginning of 2020 to 2021
- 16.4% stake built in luxury fashion brand Hugo Boss since 2020
- Game and Jack Wills were acquired in 2019
  - 37% stake built-in catalogue retailer Findel during 2019 but mandatory takeover bid rejected
- Acquired House of Fraser, Evans Cycles, and Sofa.com during 2018
- Part-acquired Agent Provocateur through Four Holdings in 2017
- Acquired upmarket department store Flannels in 2017
- Acquired Sports Eybl & Sports Experts and Sportland in 2013, Heatons in 2015, and Eastern Outfitters during 2017
- Acquired USC, Van Mildert, Cruise, and Republic brands from 2011 to 2013

Mergers & acquisitions					
Acquired company	Deal status	Date	FRAS:LSE since announced	Transaction value	
Sneakerboy Pty Ltd	Deal completed	13 Oct 2022	27.70%	--	
<b>MySale Group PLC</b>	Deal completed	17 Aug 2022	-11.69%	16.18m	
I Saw It First Ltd	Deal completed	28 Jul 2022	-10.55%	--	
Mennace Ltd	Deal completed	01 Jun 2022	14.76%	25.20m	
Missguided (IP) Ltd	Deal completed	01 Jun 2022	14.76%	--	

Data delayed at least 20 minutes, as of Nov 11 2022 16:36 GMT.



F R A S E R S  
G R O U P

# Debt Management

- The heavy push on acquisitions recently has not come at the cost of balance sheet management
- Of the company's £850m in outstanding debt, about £350m are covered by interest rate swaps, fixing the rate at 0.985% and 0.45% per annum
- This makes the company well positioned for the current period of rate rises
- A rise in the interest rate of 0.5% would lead to a £2.6m fall in earnings (less than 1% of FY2022)
- The company is confident in itself, with £193m being spent on share buybacks over FY22 (against £250m in after tax profit)

“The first contract covers a notional amount of £250.0m and fixes the interest rate at 0.985% per annum until 29 May 2026. The second contract covers a notional amount of £100.0m and fixes the interest rate at 0.45% per annum until 2 September 2024.”



# FRASERS THESIS POINT #3 – RECENT PERFORMANCE

FRASERS GROUP - ANNUAL REPORT - 2021

FRASERS GROUP

## OUR RESPONSE TO COVID-19

Throughout the Covid-19 pandemic, our highest priority has been to protect the health, safety and wellbeing of our colleagues. This reflects both our duty to keep our people safe and the business imperative: if we are not safe, we cannot trade.

Our response has been based on a number of key principles, in particular:

- following Government guidelines and exceeding them in certain aspects;
- completing thorough risk assessments and regularly updating them; and
- communicating effectively, so our people understand what we are doing and their part in keeping themselves and their colleagues safe.

The standards we have developed have been shared and followed across the Group, except where local legislation mandates a different approach.

The Group's senior management have been closely involved in our response, ensuring the safety of our people is put first and that sufficient resources and equipment are available. We have also been supported by an independent health and safety consultant, who is helping us to drive continuous improvement, including in relation to our response to Covid-19.

### Our Initial Response To Covid-19

In last year's report, we detailed the steps we had taken across our warehouse, office and stores in the first few months of the Covid-19 pandemic. These steps are summarised below.

Virtually all furloughed colleagues received 100% of pay during the first lockdown, in excess of the 80% guaranteed by the Government, and we sent home on full pay all colleagues over 60, as well as those categorised as vulnerable or at risk. Other measures we have introduced included random temperature checks for colleagues, strict protocols for self-isolation after contact with a positive case, encouraging regular testing and providing full

pay for people who test positive, while they are unable to work.

In summary, in the early stages of the Covid-19 pandemic we:

#### Warehouse

- Invited the local environmental health officer and our independent consultant to review our controls and social distancing measures
- Reduced the amount of traffic in and out of the building and in key areas, for example by staggering start, finish and break times, moving agency staff to four-day weeks and opening a new entrance to reduce traffic through reception
- Introduced seven-day health and safety coverage, to support the warehouse teams
- Provided first aiders with advice and PPE (personal protective equipment), to protect them when first aid was needed
- Implemented hygiene stations and created a new role of "Social Distancing Marshal"
- Introduced 'no contact' security checks

#### Office

- Required colleagues to work at home wherever possible and where they needed to shield
- Communicated restart guidance through Slack (an internal messaging service available to all head office colleagues)
- Increased cleaning, provided hygiene stations throughout and limited capacity in key areas such as kitchens and lifts
- Implemented protocols to ensure there was no mixing between warehouse and office staff in common areas such as canteens
- Allowed only authorised visitors and encouraged meetings through digital platforms

#### Stores

- Created a retail restart pack for stores reopening, including signage, PPE, increased cleaning schedules, lower store occupancy levels, one-way systems in-store and training documents for all new procedures
- Reduced traffic in and out of the building and in key areas by staggering start, finish and break times
- Revised delivery and processing procedures to maintain social distancing
- Added sanitisation stations throughout stores and encouraged colleagues and customers to use them
- Used unannounced visits by the Health & Safety team to ensure the retail restart pack had been correctly implemented

Our approach was well regarded by local authorities, with positive feedback following unannounced visits to our stores and warehouse.

#### Adapting And Developing Our Procedures

Throughout this financial year we have built on our initial actions, as we have updated our risk assessments and adapted to changing guidance. This has enabled us to introduce new and stronger measures, in particular as the Covid-19 variant first identified in Kent began to spread. Examples of our key activities undertaken in the year are set out below.

- **August 2020.** We reviewed our warehouse risk assessment and shared it with the warehouse and agency teams. We started weekly anti-viral 'fogging' of offices, sorters and other areas to supplement the regular cleaning schedule, enhanced workstation plexi-screens in the office to support social distancing and introduced maximum capacities for meeting rooms.
- **September 2020.** We reviewed our warehouse risk assessment and our first aid guidance and introduced a screening questionnaire for all visitors.
- **October 2020.** We introduced face shields on all sorting machines, as an additional layer of protection.

Frasers' post-pandemic interim results reveal that the retailer's profit before tax has soared by 75.3% to reach £186m. In fact, the group reported revenue increases across each of its divisions in the half-year period, with sales increasing by 23.6% to £2.3bn, while profits and revenues also surpassed figures recorded for the same period in 2019.

4 ways Frasers has ensured growth during the pandemic:

- Rebuilding relationships
- Accessibility
- Further investment and diversification
- E-commerce & department stores' maintenance

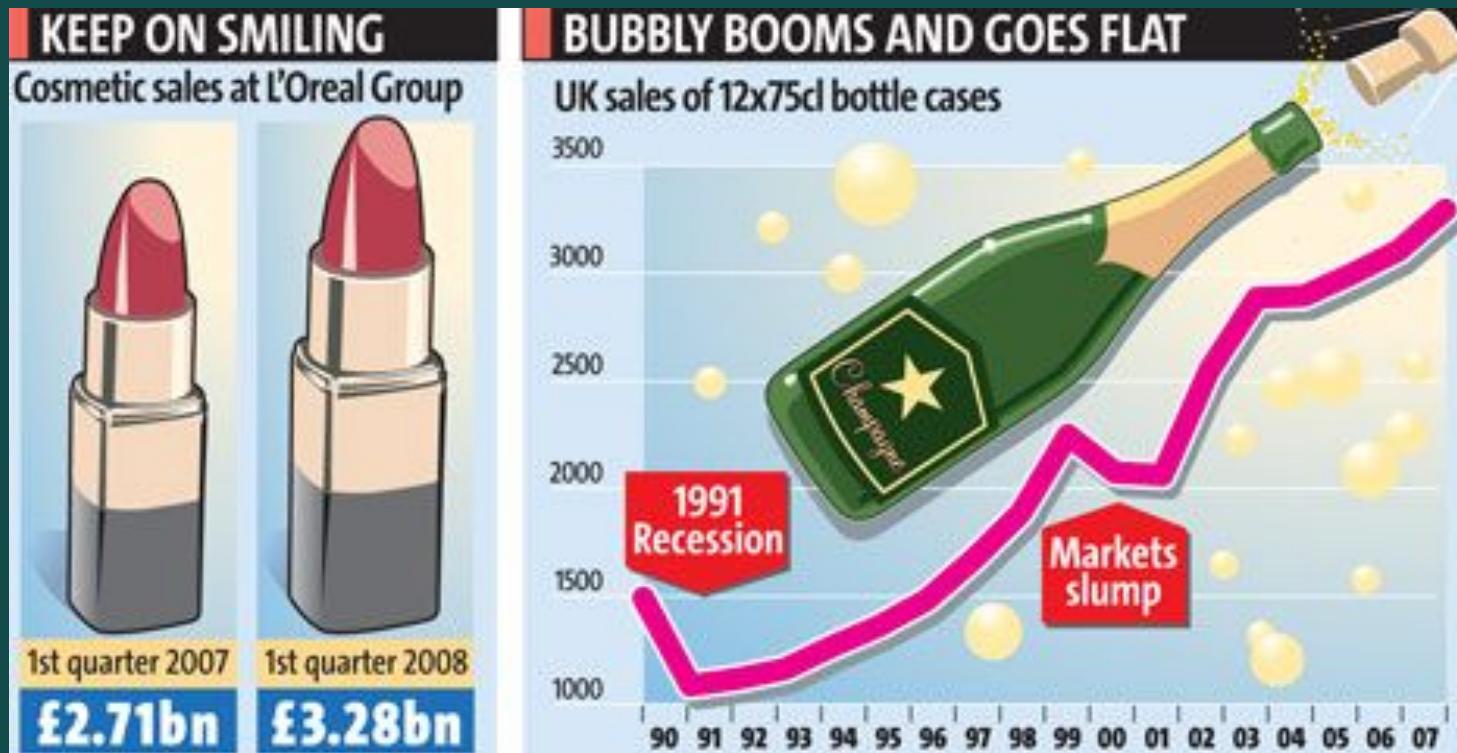
FRASERS  
GROUP



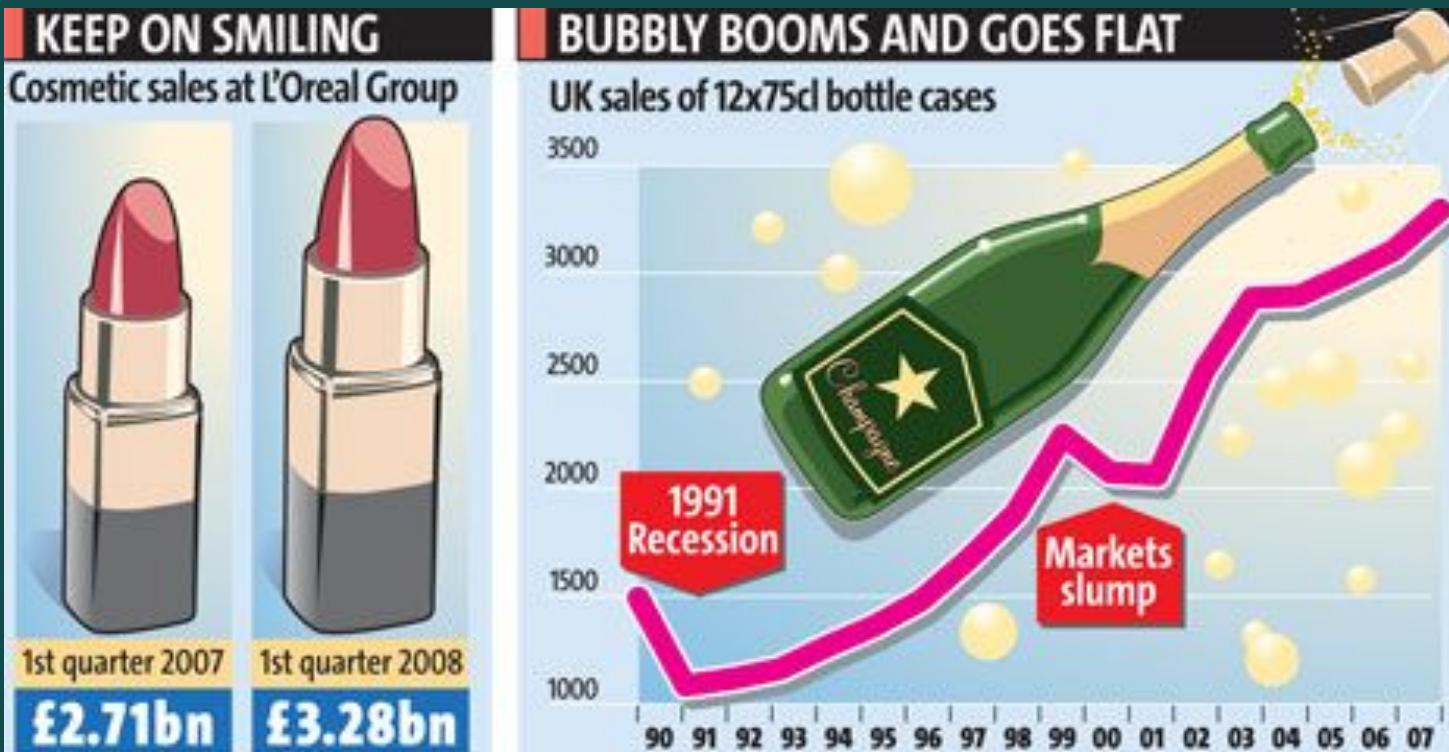
# FRASERS RECENT PERFORMANCE

## Resilience of the High Street

Frasers' high price point does not necessarily mean that they are highly exposed to the cost of living crisis, as demonstrated by their recent strong performance



# Lipstick Effect



When times get tough, lipstick sales rise, despite being an expensive and discretionary product

People are human! They want a treat and they want an activity, when times are tough more than ever.  
Lipstick becomes a cut-price treat



# Lipstick Effect

Despite Frasers' relatively high price point, its high operating margin allows it to use sales to maintain strong income during a downturn

Their goods being on sale makes them especially attractive to someone undergoing the lipstick effect



# Lipstick Effect

Their goods being on sale makes them especially attractive to someone undergoing the lipstick effect

			
<b>DOLCE AND GABBANA</b> FORMAL SUIT <b>£1,600</b>	<b>PRADA</b> TWO BUTTONED SUIT <b>£2,090</b>	<b>CANALI</b> MILANO TWO PIECE SUIT <b>£1,235</b>	<b>CANALI</b> MILANO TWO PIECE SUIT <b>£1,235</b>
			
<b>BOSS</b> 2 PIECE CHECK SUIT <b>£419 £595</b>	<b>BOSS</b> H HUGE 3 PIECE SUIT <b>£419 £595</b>	<b>BOSS</b> BOSS HUGO TWO PIECE SUIT <b>£369 £525</b>	<b>BOSS</b> MM WAISTCOAT <b>£115 £159</b>



# Resilience of the High Street

People have been predicting the death of high street shopping since the dawn of the internet, yet it has maintained a solid proportion of sales, especially in the higher end portions of the market

Shopping is an fun activity, not an economic decision to obtain goods



# Portfolio Considerations

## Associated British Foods

The most similar stock in the portfolio is Associated British Foods.

This is a food staples manufacturer, and is not closely related to a medium-high end fashion retailer.

(Including ABF in linear reg. against FTSE over last 12 years causes F value to fall by 40%)

## High Beta

The stock has exhibited a 5Y Beta of 1.81, clearly very high.

Given the portfolio's current high levels of cash and defensive stocks it is reasonable to take this risk.

The entire sector is highly volatile - shown later



# CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 24 April 2022

	Note	Continuing operations 52 weeks ended 24 April 2022 (£'m)	Discontinued operations 52 weeks ended 24 April 2022 (£'m)	Total (£'m)	Continuing operations 52 weeks ended 25 April 2021 (£'m)	Discontinued operations 52 weeks ended 25 April 2021 (£'m)	Total (£'m)
Revenue		4,672.9	114.2	4,787.1	3,507.3	118.0	3,625.3
Credit account interest		18.2	-	18.2	-	-	-
<b>Total revenue (including credit account interest)</b>	<b>4</b>	<b>4,691.1</b>	<b>114.2</b>	<b>4,805.3</b>	<b>3,507.3</b>	<b>118.0</b>	<b>3,625.3</b>
Cost of sales		(2,647.2)	(56.1)	(2,703.3)	(2,023.4)	(71.1)	(2,094.5)
Impairment losses on credit customer receivables	4	(13.3)	-	(13.3)	-	-	-
<b>Gross Profit</b>		<b>2,030.6</b>	<b>58.1</b>	<b>2,088.7</b>	<b>1,483.9</b>	<b>46.9</b>	<b>1,530.8</b>
Selling, distribution and administrative expenses		(1,557.3)	(31.5)	(1,588.8)	(1,281.6)	(37.4)	(1,319.0)
Other operating income	5	45.4	2.6	48.0	33.3	3.5	36.8
Property related impairments	17, 18	(227.0)	-	(227.0)	(317.0)	-	(317.0)
Exceptional items	6	(1.3)	-	(1.3)	(1.6)	-	(1.6)
Profit on sale of properties	7	10.8	-	10.8	9.7	-	9.7
<b>Operating Profit/(Loss)</b>	<b>4,8</b>	<b>301.2</b>	<b>29.2</b>	<b>330.4</b>	<b>(73.3)</b>	<b>13.0</b>	<b>(60.3)</b>
Investment income	10	43.8	-	43.8	103.7	-	103.7
Investment costs	11	(19.7)	-	(19.7)	(7.7)	-	(7.7)
Finance income	12	30.3	-	30.3	9.0	-	9.0
Finance costs	13	(48.9)	(0.3)	(49.2)	(32.9)	(3.3)	(36.2)
<b>Profit/(loss) before taxation</b>		<b>306.7</b>	<b>28.9</b>	<b>335.6</b>	<b>(1.2)</b>	<b>9.7</b>	<b>8.5</b>
Taxation	14	(75.5)	(3.2)	(78.7)	(85.4)	(1.1)	(86.5)
<b>Profit/(loss) for the period</b>	<b>4</b>	<b>231.2</b>	<b>25.7</b>	<b>256.9</b>	<b>(86.6)</b>	<b>8.6</b>	<b>(78.0)</b>
<b>ATTRIBUTABLE TO:</b>							
Equity holders of the Group		224.1	25.7	249.8	(91.6)	8.6	(83.0)
Non-controlling interests		7.1	-	7.1	5.0	-	5.0
<b>Profit/(loss) for the period</b>	<b>4</b>	<b>231.2</b>	<b>25.7</b>	<b>256.9</b>	<b>(86.6)</b>	<b>8.6</b>	<b>(78.0)</b>
		Pence per share	Pence per share	Pence per share	Pence per share	Pence per share	Pence per share
Basic earnings per share	15	47.5	5.4	52.9	(18.2)	1.7	(16.5)
Diluted earnings per share	15	47.5	5.4	52.9	(18.2)	1.7	(16.5)

# CONSOLIDATED BALANCE SHEET

At 24 April 2022

	Note	52 weeks ended 24 April 2022 (£'m)	52 weeks ended 25 April 2021 (£'m)
<b>ASSETS - NON CURRENT</b>			
Property, plant and equipment	17	1,011.0	1,164.9
Investment properties	18	89.2	14.1
Intangible assets	19	120.6	120.5
Long-term financial assets	21	206.6	263.3
Retirement benefit surplus	38	2.2	-
Deferred tax assets	28	100.8	66.8
		<b>1,530.4</b>	<b>1,629.6</b>
<b>ASSETS - CURRENT</b>			
Inventories	22	1,277.6	1,096.6
Trade and other receivables	23	841.4	546.5
Derivative financial assets	30	116.5	55.4
Cash and cash equivalents	24	336.8	457.0
		<b>2,572.3</b>	<b>2,155.5</b>
<b>Assets in disposal groups classified as held for sale</b>	<b>16</b>	<b>40.0</b>	<b>-</b>
<b>TOTAL ASSETS</b>		<b>4,142.7</b>	<b>3,785.1</b>
<b>EQUITY</b>			
Share capital	25	64.1	64.1
Share premium		874.3	874.3
Treasury shares reserve	26	(488.9)	(295.7)
Permanent contribution to capital	26	0.1	0.1
Capital redemption reserve	26	8.0	8.0
Foreign currency translation reserve	26	35.6	28.8
Reverse combination reserve	26	(987.3)	(987.3)
Own share reserve	26	(66.8)	(66.7)
Hedging reserve	26	55.3	11.5
Share based payment reserve		14.1	1.3
Retained earnings		1,778.1	1,554.5
<b>Issued capital and reserves attributable to owners of the parent</b>		<b>1,286.6</b>	<b>1,192.9</b>
Non-controlling interests		22.0	18.1
<b>TOTAL EQUITY</b>		<b>1,308.6</b>	<b>1,211.0</b>
<b>LIABILITIES - NON CURRENT</b>			
Lease liability	27	503.6	534.2
Borrowings	27	827.9	705.9
Retirement benefit obligations		1.6	1.9
Deferred tax liabilities	28	40.4	27.0
Provisions	29	433.0	361.2
		<b>1,806.5</b>	<b>1,630.2</b>
<b>LIABILITIES - CURRENT</b>			
Derivative financial liability	30	107.2	19.2
Trade and other payables	31	729.8	646.3
Lease liability	27	117.0	188.5
Current tax liabilities		50.9	89.9
		<b>1,004.9</b>	<b>943.9</b>
<b>Liabilities in disposal groups classified as held for sale</b>	<b>16</b>	<b>22.7</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>2,834.1</b>	<b>2,574.1</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,142.7</b>	<b>3,785.1</b>