

Macellum grasps opportunity at omni-retailers- Activist Profiler

Macellum Capital Management targets retail companies that have manageable balance sheets and where a team can be put in place to fix the business, said founder and portfolio manager Jonathan Duskin.

The activist looks to engage and work with companies that have assets that can be tapped to help support the operational turnaround efforts and protect the firm's investment. Macellum's campaigns often target retailers whose problems are self-inflicted, he noted.

Macellum currently sees an opportunity in working with retail companies as they transition to becoming omni-retailers, said Duskin.

Covid-19 has demonstrated the importance and competitive strength that brick-and-mortar retailers can possess if they change and execute on a quality omni-channel strategy, he noted.

Retailers that have introduced curbside pickup have learned how to manage inventory in the ever-changing retail landscape, providing these companies with a competitive advantage, he said.

Many companies in the sector increased their capital spending in 2015 and 2016 in response to the threat from e-commerce, said Duskin, but the pandemic has accelerated this investment. Companies increased their capex by 30% to 50% to catch up to the pure online providers and to build out their omnichannel business, he noted.

Much of this investment has been made and those with the correct business model should perform well as capex declines, revenues rebound, and free cash flow grows – something that can be returned to shareholders.

But there is a lot of catch up for the second-tier players that has yet to come, where Macellum could act as a catalyst for change, noted Duskin.

The benefits of omni-channel retailers are beginning to emerge, said Duskin. Over the last two years, omni channel retailers grew 85%, while Amazon grew 60% and other online players grew 65%, according to Macellum research. In contrast, three and four years ago, revenue growth would have been dominated by the e-commerce companies, with traditional

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retailers trailing by a wider margin.

Broad activist approach: Operational remakes, real estate value, wide footprint

Macellum takes a contrarian approach along with a longer-term time horizon with its investments, said Duskin. The investor looks to work with companies where there are multiple levers to unlock value in identifying targets, whether it is the ability to remake a business, tap underappreciated real estate assets, or push for monetizing businesses that may be better off in the hands of others.

Two of Macellum's more recent campaigns at **Kohl's** [NYSE:KKS] and **Bed Bath & Beyond** [NASDAQ:BBBY] illustrate the activist's strategy.

What attracted Macellum to engage with Kohl's was the potential for a remake of the business, the value of its real estate, and its vast store footprint, said Duskin. Macellum placed a value on the real estate of USD 8bn, roughly in-line with its current market cap. Kohl's has around 1,160 stores in 49 states.

Kohl's has struggled during the past decade to earn much of a return for shareholders.

As part of an April settlement, Thomas Kingsbury, who helped drive the successful remake of **Burlington Stores** [NYSE:BURL], is one of three new directors joining the Kohl's board and brings a lot of experience at turning around retail businesses. Macellum was joined in this campaign by **Legion Partners**, **Ancora Advisors**, and **4010 Capital**. The company expanded its existing share repurchase plans as part of the settlement.

In 2015, Bed Bath & Beyond's shares traded over USD 75 and then began a multi-year decline to below USD 10 in 2019. The company appointed Mark Tritton, formerly of **Target** [NYSE:TGT], to become CEO in November 2019, following a settlement with Macellum and other investors. Tritton is currently putting in place plans to remake the retailer.

Bed Bath & Beyond has been selling businesses the last few years. It has signed deals to sell [PersonalizedMall.com](https://www.personalizedmall.com) in February 2020, sold One Kings Lane in April 2020, sold Christmas Tree Shops and T-Y Group & Harbor

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Linen in October 2020, and Cost Plus in January 2021. The company had five to six different core businesses under its ownership, said Duskin.

Both of these companies have a large retail footprint where “customers can buy when they want, where they want, how they want”, said Duskin. The “holy grail” for retailers is to have same-day or next-day delivery, requiring companies to have 1,000-plus stores so they can have a location within five to 10 miles of customers, which both companies have, he explained.

Further, both Kohl’s and Bed Bath & Beyond are guiding their capex down, which will translate into earnings improving and better cash flow, said Duskin.

An ancient Roman food court

The investment firm derives its name from the Macellum Magnum, a Roman indoor food court that was often adjacent to a forum or basilica in Rome. These indoor food courts were essentially the first indoor malls, noted Duskin.

Duskin has been investing in retail for over 20 years and founded the firm in 2009. He works with his partner Aaron Goldstein, who joined him in 2014 and provided the deep push into activism.

The firm solely focuses on retail, making the firm a bit unusual, Duskin noted, adding the firm makes about one to two investments per year. The firm’s current fund has about USD 500m in assets under management, which ebbs and flows as the firm looks to distribute investment gains to its partners as they are realized, taking a more private equity approach to its public investments, he explained.

Duskin has experience participating in rescue financing, some distressed financing, along with some private equity investing, all with a turnaround flavor in retail.

The firm has a good understanding of all the different avenues that retail touches, whether it is the vendor community, distributors, bankers, lenders, consultants or senior executive team, noted Duskin. Taking this experience and broad industry knowledge, the firm can take a very long-term view of its capital and effect change. “In retail, few others can do this,” he noted.

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Citi Trends, Big Lots – a persistent approach brings nice rewards

Citi Trends [NASDAQ:CTRN] was a company in need of operational changes. Joining the board in 2017, Duskin said he was able to get a firsthand look at how the company did things, adding that after two years into his board tenure, the company was still very broken.

Macellum then ran a second campaign, which led to a settlement with the board. Changes then began to occur, as the company brought in a new CEO and whole new management team.

The Citi Trends campaign demonstrates that Macellum knows how to work with companies to fundamentally fix a business, said Duskin. Macellum and Citi Trends were able to work together to create a whole new mentality around customer centricity and building an assortment that customers found attractive. They also worked together to improve operational issues around supply chain and inventory turn, Duskin explained.

Since the second campaign, sales and EBITDA have improved and Citi Trends is repurchasing shares. The retailer's shares have risen from around USD 20 to over USD 100 in May 2021.

In another fix up, Big Lots shares had declined roughly 75% from its 2018 peak to a 2020 low. Macellum, along with Ancora Advisors, saw an opportunity to work with the company to help kickstart growth by returning to Big Lots' deep discount roots in addition to monetizing real estate.

The company completed a USD 750m sale-leaseback agreement for its real estate and then entered a settlement agreement with the activists. Since the April 2020 standstill agreement, Big Lots' shares have climbed from around USD 20 to USD 60 in recent trading.

These campaigns demonstrate that Macellum is focused on fixing businesses, not shuffling around deck chairs and financial engineering. "If you sell assets and buy a ton of stock back and don't fix the business, the stock is going lower," said Duskin. To drive shareholder value, a fundamentally stronger business needs to emerge and that is what Macellum has been able to do, Duskin noted.

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Five quick facts about Macellum Capital:

- 1. Retail sector focus**
- 2. Targets one to two investments per year**
- 3. Founders have extensive experience in turning around retailers**
- 4. AUM of about USD 500m, with capital returned to investors as gains are realized**
- 5. In ancient Rome, a Macellum was an indoor food court**

by Ed Mullane

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