



VT DE LISLE AMERICA FUND

Investment note - Build-a-Bear

Richard de Lisle

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Commentary on Build-A-Bear - June 27 2023

On June 27, Richard de Lisle met with Gary Schnierow, Build-a-Bear's (BBW) new full-time VP of Investment Relations and Corporate Finance. He told De Lisle Partners that BBW considers itself to be a growth company.

This is essential as they are on a P/E of 6x which is very much assuming the cash inflows of the last two years have been a one-off due to the pandemic. It is easy to see why the market might think that: the company took in so much cash that it bought back huge amounts of stock and paid big special dividends, as though they were giving their windfall back.

However, they said that everything they did was highly profitable but the cash came in so fast it would be unreasonable to have just gone out and doubled the store count. De Lisle Partners agree, and like the way they try and test new products and new ways of sales distribution.

BBW admitted that it has been facing 'headwinds' from the decreasing footfall in B- and C-grade malls. However, as the world rapidly comes to value experience over buying stuff, they emphasised that the traditional anchors of stuff, JC Penney & Sears, are giving way to BBW as it becomes a principal reason for people, especially families, to come to a mall. This gives it some leverage over lease costs.

After closings pre-pandemic and lease re-negotiations during the pandemic, all units are now profitable and they can re-consider expanding. Expansion into East Asia was discussed following the recent immediate sell-out of a Build-a-Hello Kitty. Still, their current focus is on partnerships with third-party vendors such as Kalahari Water Parks and Carnival Cruises which are highly profitable and demand very low levels of capital investment from BBW.

The website is steadily improving, though it's still a work in progress as it strives to create intuitive, user-friendly sites that will appeal to customers of all ages when viewed on mobile phones and tablets.

They cited Brexit as one of the pre-pandemic headwinds partly due to the tumbling pound. Therefore BBW small army of undercover children is to continue reporting back as the UK is clearly important to them. Last week Hamleys' flagship store in Regent Street London unveiled a major 300 sq ft expansion of its popular Build-a-Bear concession and announced a program to upgrade the BBW experience across the rest of its estate. Who said toy shops were dead?

Conclusion

We agree that Build-a-Bear is a growth stock with 15 years of headwinds having finally abated. The last two years, since the post-pandemic reopening, have not been a one-off cash cascade but the start of steady growth although the market is dubious, given the lengthy disappointments of the past. The new IR, Gary, will slowly get the message out. The stock is too cheap at \$20. Expect it to slowly re-rate higher and more longer-term holders to start featuring on the shareholder list.

Our current weighting is 2.7% of the Fund, making it one of our Top 10 holdings, and we will continue to add opportunistically up to our 3% target.

All data sourced from De Lisle Partners as at 27th June, 2023.