Mind The Gap

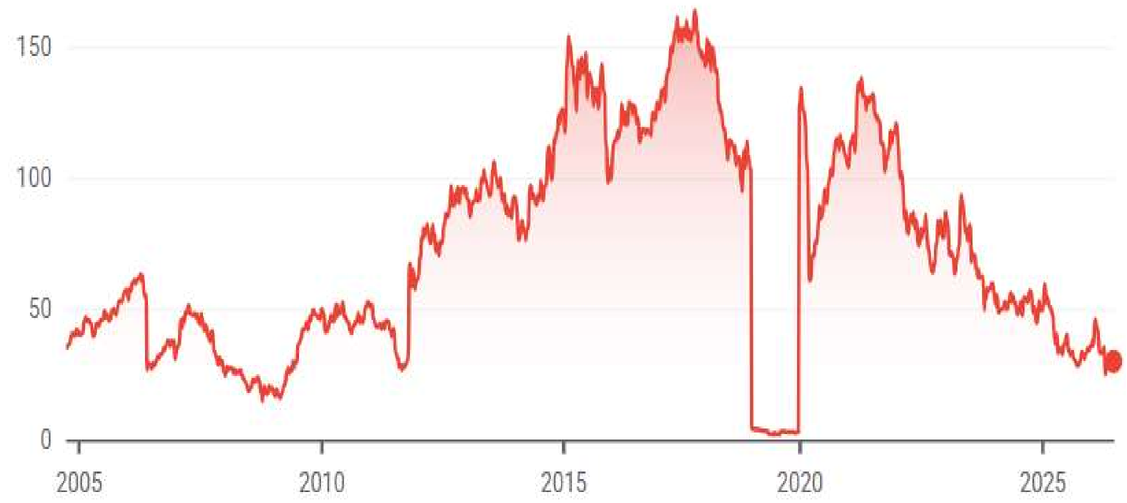
Perspectives: June 25th, 2026

Contrarian long-term investors will 'mind the gap' between catching a falling knife and making a good investment decision. I present two case studies.

Electronic home appliance manufacturer **Electrolux** was founded in 1910 and listed in Sweden in 1930. It pioneered products such as the air-cooled absorption refrigerator and lightweight canister vacuum cleaner. It is consistently ranked the world's 2nd largest home appliance maker by units sold, after Whirlpool. Its most influential shareholder is the respected Investor AB, the investment vehicle of Sweden's Wallenberg family.

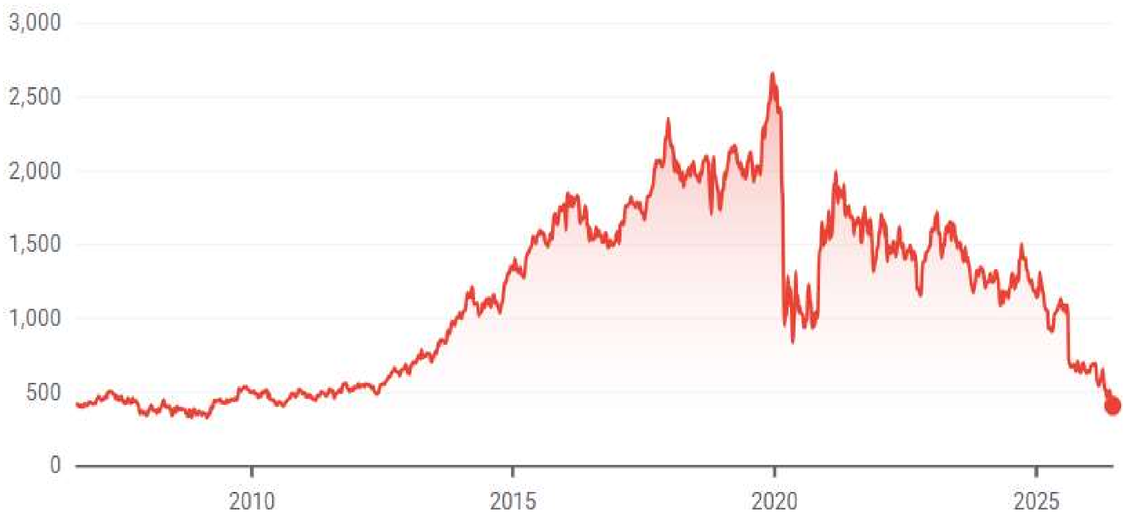
Electrolux delivered excellent long-term financial results and commensurate share price returns for 36 years from 1986 to 2022. Then, in 2022 a few key issues surfaced – the balance sheet became heavily geared following a massive share buyback, and then sales growth faded while profit margins declined as a result of component shortages and increased logistics costs. The share price followed suit and declined by 78% from SEK130 in 2022 to SEK28,5. A few weeks ago they announced a highly dilutive 2 for 1 rights issue, priced at a steep discount of 41% to the ruling share price.

<u>Chart 1: Electrolux Share Price</u>



UK listed travel retailer **WH Smith** was founded in 1792. Its 1,200 retail stores are located in the railway stations, airports, ports, hospitals, and motorway service stations across 30 countries. An aggressive global acquisition strategy starting in 2018 resulted in a geared balance sheet, further exacerbated by the severe negative impacts of the covid-pandemic. More recently the war in the Middle East has put additional pressure on the profit margins and further increased balance sheet gearing. The share price followed suit and declined by 85% from GBP27 in 2020 to GBP4. A week ago, they announced a capital raise via private placement priced in line with the ruling share price. This meant that shareholders who were not invited to partake were being diluted.

Chart 2: WH Smith Share Price



With today's leading market indices propelled ever higher by a handful of gargantuan tech sector US$1tn+ market cap stocks, it is understandably easy to miss seeing that (1) there are over 50,000 other listed stocks around the world and (2) many of them have declined precipitously in the past few years. These present contrarian global bargain hunters with interesting research opportunities, but also nuanced complexity.

Electrolux and WH Smith are iconic businesses, with a proud long-term heritage of industry leadership, which have experienced significant decline since 2018. What did they have in common as potential early warning signs?

1. Top of cycle growth strategy by acquisition.
2. Highly geared balance sheets.
3. Exposure to discretionary global consumer spending.
4. Inability to adapt quickly enough to operational adversity.
5. Recent departure of CEO's who oversaw the period of decline.

It is *not* a foregone conclusion that any stock that already declined precipitously is a common sense bargain. Shareholders of Electrolux and WH Smith that did not have the confidence or the money available to take up their rights, or were not even invited to consider doing so, have been diluted meaningfully. Those who partook in recapitalising these companies had to find the confidence and the capital to do so.

Time will reveal which side of the gap they are on.

Our work continues…

Daniel Malan, CFA
Founder, Managing Director & Chief Investment Officer
daniel@perspectiveim.co.za

Perspective Investment Management
www.perspectiveim.co.za

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Investment Management