EQUITA

SPORT & WELLNESS



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Industry revenues to growth mid to high single digit in the mid term

We expect the general sporting goods market and the Fitness/Wellness sector to continue **to grow on average at high single digit level in terms of revenues**, even if with different trend in different regions and subsector. For the sporting good, we see **US market**, one of the most important in the world, **to remain weak and fully promotiona**l, until the main retail chain will be able to fully clean the inventories.
Looking at the other regions, **Asia remains an interesting source of growth**, together with Latina America, while **Russia, not only for Adidas, is still showing weak trends**, waiting for the FIFA World Cup event in the 2018 summer, which could probably create new opportunities.

About the **Fitness/Wellness sector**, we see huge growth potentials, especially for **wellness**, which is a **concept** that is **totally change the dynamics of the most important fitness markets**. While the fitness market was dealer driven in the past, with a big focus on pricing, the new wellness concept is pushing gym's club, hotel and people in general, to be more **focused on value added product and services**, with an increase of the number of customers who are looking for more in terms of quality of the training activity, **connectivity**, and additional services which could help people to combine every day training activity, nutrition and attitude in life.

The pricing is becoming even less important in the customer choices. The **Technogym competitive advantage** vs. the Fitness machine producers is based on its capability to provide a unique integrated solution including software, application, services and equipment.

Despite the subsector differentiation and some short term headwinds in the US market, one of the most important in the industry, we believe that the sporting goods market could reached the level of growth explained before, supported by several demographic factors:

1. **Growing Population**: with the total global population expected to rise from the 6.5bn of 10 years ago to the 9.5bn by 2050 (today at 7.5bn). The main focus is obviously on the emerging areas, where all the major players are present and well positioned. The huge amount of people present in this markets allow the companies to invest materially in market and communication and to leverage this investments in few time.

2. **Rising Obesity**: fight against obesity is the major focus for governments in emerged economies, with huge communication campaigns to force people to be more focused on diet and life style. US and China represents the two most interesting areas with rising obesity and diabetes not only among adults but in particular among kids and teen-eagers.

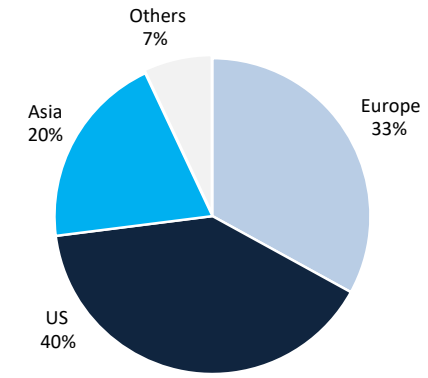
3. **Increasing trend to a more informal dress code**: the life style business is at list 20% of revenues for the major sporting goods companies. The new habits in terms of dress code are also supportive for the fitness business, since it allow people to better maximize their lunch break with quick and more comfortable change of dresses, especially after 30/40min of training in the gym.

THE GLOBAL SPORTING GOODS MARKET

■ Footwear, the leading subsegment

The Sporting goods industry is highly fragmented with **no major operator likely to have any material pricing power with the exception of the major brands** like Nike or Adidas, especially in the footwear market and particularly thanks to the general reorganization of the distribution channel that these two brands have put in place in the past five years.

ATHLETIC FOOTWEAR GEO SPLIT



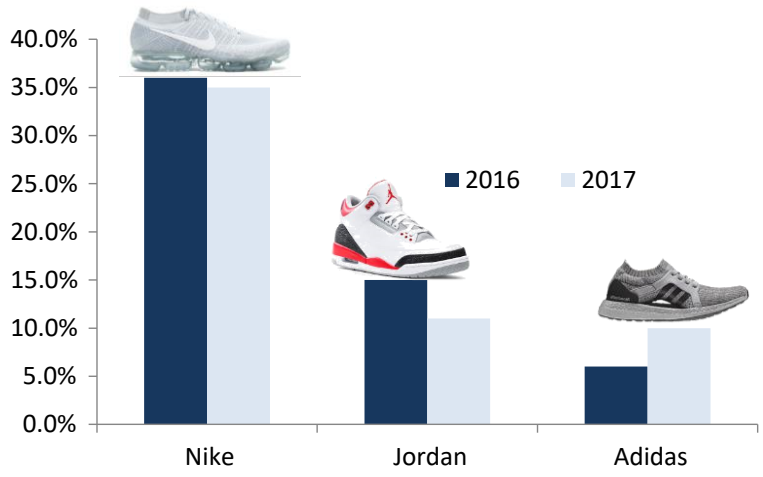
Source: EQUITA SIM

The most important part of the market has been the footwear category and effectively all started from this products. The statistics show a fairly constant growth of this category in the past ten years and it is, at the same time, the segment has been developed the recent crisis for the US sporting goods retailers.

Ten years ago, Nike was the most important brand in the world with 30% of market share, followed by the 17% of Adidas. Today, **Adidas is close to 25%, while Nike remains the global leader with the 32%**. Nevertheless, the lesson coming from the excess of inventories registered last year in US is useful to understand that the industry has a typical underlying growth trend and that all the excess of sell in will create a temporary imbalance that you have to digest by mark down. A very high level of growth, like the one Adidas is reporting in US, could be sustainable only if it implies a material changes in the market share picture.

In the last twelve months Adidas benefited from its interesting new product proposition in lifestyle and the innovation in running and doubled its market share reaching a level around 10% in the difficult US sporting goods market. At the same time, Nike lost circa 2% of share and the Jordan Brand lost circa three points of market share, something really unusual, but justified by the investments and the commitment of the German brand in innovation, marketing and communication, three key factors to be successful in this industry.

US MARKET SHARE CHANGE BY BRAND



Source: NPD Group

The U.S. athletic footwear industry grew by 2 percent in 2017, generating $19.6 billion in sales. Unit sales also grew by 2 percent and average selling price remained flat, at $58.16.

The women's market grew the fastest, with sales up 5 percent over 2016. Men's footwear, the largest segment of the market, grew its sales by 1 percent, as did the kid's market.

According to the statements of several sporting goods retailers, this was one of the most promotional years in decades for the athletic footwear industry. While promotions helped drive sales in 2017 and the product mix kept the average selling price flat, it was a double-edged sword for the industry, as its performance was not as healthy as in more recent years. **Brands and retailers need to change their course of action to achieve long-term growth.**

Adopting solutions in their marketing and product development will give the industry an important boost in 2018, and set it on the right track moving forward.

Continuing its growth relative to the performance category, **sport leisure is now the largest category in athletic footwear** (+17% in 2017), while "**performance products" sales declined -10%**, a rate that has accelerated for the last two years. The **fastest-growing** segments of the market were **running inspired (+39%)** and **casual athletic (+24%) footwear**.

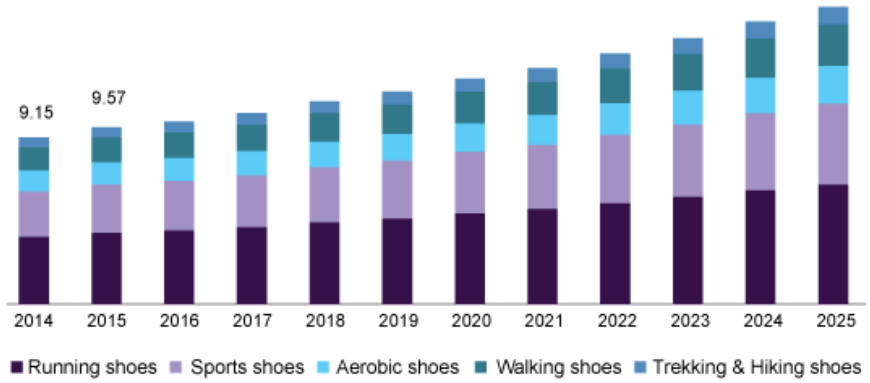
On the performance side, **running shoe sales declined by -7%** and **training** were **down -15%**.

Nike/Brand Jordan, Adidas, Skechers, Under Armour, and New Balance were the top-selling brands based on dollar sales in 2017.

Adidas was the fastest-growing player in the market overall, growing its sales by over 50%. While the list of top 10 selling shoes was dominated by Nike and Brand Jordan, Adidas had two shoes on the list this year – Superstar and Tubular Shadow.

Looking at quarterly performance, the industry's sales generated during the third (Q3) and fourth (Q4) quarters of the year were almost the same, with 3Q benefited from the back to school season and the 4Q impacted by price promotions; the fourth quarter of 2017 grew +4% percent compared to that same period in 2016.

CHINA ATHLETIC FOOTWEAR MARKET SIZE BY CATEGORY 2014-2025 (USD bn)



Source: NPD Group

Summarizing, the global athletic footwear market is **expected to reach $114.8 billion by 2022, growing at a CAGR of 2.1%** during the forecast period 2016 - 2022. Athletic footwear refers to those shoes that are designed for sports and other outdoor activities. Yet, the global consumption volume indicates a trend of these being used as casual and fashion footwear by people of all age groups. The market offers a variety of footwear with options in colour, design, and price to cater to the needs and purchasing abilities of individual customers.

Sales expansion through online channels, innovative product launches, and attractive marketing and promotional strategies that are adopted by the companies have fuelled the growth of the athletic footwear market size.

MARKET SHARE BY REGIONS (2016)



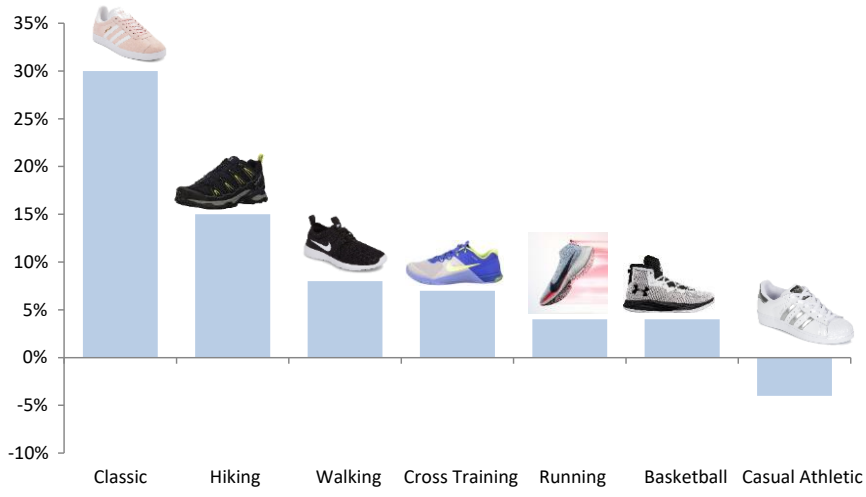
Source: statista.com

The market is highly competitive with players making huge investments in marketing channels and brand building. This highlights their presence and helps establish their brand value to attract an increased volume of consumers.

There are numerous small-scale manufacturers that offer tough competition to the athletic footwear giants. Increasing environmental concerns over synthetic rubber and the rise in raw material prices have emerged as major challenges for the market.

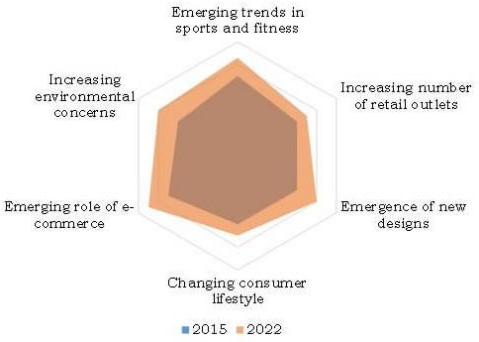
The successful development strategies adopted by the companies are discussed in this report. This helps highlight the recommended growth strategies for the market.

ATHLETIC FOOTWEAR PERFORMANCE BY CATEGORY (AVERAGE 2014-2016)



Source: EQUITA SIM

THE TOP FACTORS IN THE ATHLETIC FOOTWEAR MARKET



Source: Allied Research

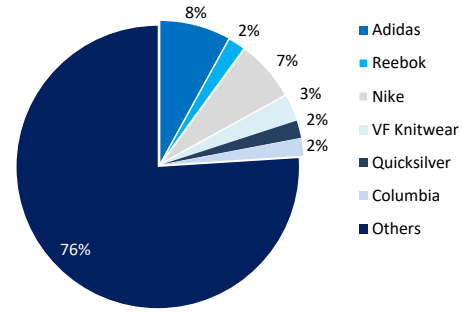
Market players strive continuously to gain a competitive advantage over their competitors and build a stronger base for themselves. **Product launch, acquisitions, and mergers have been the prominent strategies implemented by key players** to increase their footprints in the global market.

Certain companies' implemented acquisition to undertake the manufacturing facilities and distribution channels of the acquired company to spin profits or expand global presence. Prominent players, such as Nike and Adidas have regularly launched new products in the market.

The continuous variety addition to their product portfolio helps attract consumers with their innovative design and features. Players also used joint ventures and partnerships to increase their consumer base or product portfolio.

■ The apparel market: too many players increase volatility

GLOBAL SPORT APPAREL MARKET SHARE



Source: EQUITA SIM

Global Sports Apparel Market is expected to generate revenue of $184.6 billion by 2020, growing at a CAGR of 4.3% during the forecast period, 2015-2020, according to new research published by Allied Market Research. Growing health awareness, increasing disposable income and **a surge in female participation** in sports are the major factors driving the growth of the sports apparels market.

The global sports apparel market is categorized, based on end users, into apparels for men, women and kids. **The men segment dominates** the sports apparel market, constituting around **52% of the total market revenue**. The **women segment** is the second biggest contributor, expected **to grow at a relatively higher CAGR of 5.7%** during the forecast period, on account of the growing interest and participation of women in different sports activities.

Based on the mode of sale; retail segment accounted for significant market share in 2014. Some of the prominent companies have focused on opening retail stores in the emerging economies to expand their geographical presence and increase their customer base.

The retail segment comprises of supermarkets, brand outlets and discount stores. Online platforms, especially **e-commerce sites, have exhibited a robust growth across the globe**, owing to the ease of accessibility and availability of a wide range of products at a competitive price. **The online mode of sale segment is expected grow at a CAGR of 9.5% in the period between 2015 and 2020**.

THE SPORT APPAREL MARKET



Source: Allied Research

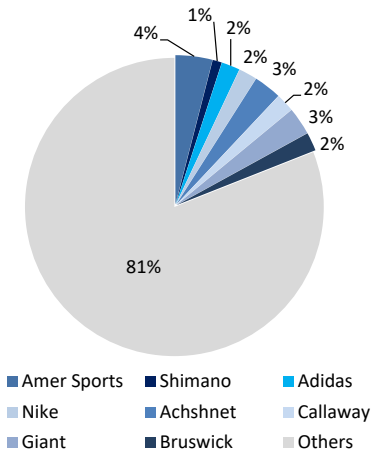
Key Findings of the Sports Apparel Market:

- The sports apparel market is expected to exhibit a significant growth during the forecast period by 2020 due to increasing disposable income, changing lifestyle and growing health awareness among consumers.
- **Men sports apparel** is the highest revenue-generating segment in the sports apparel market. The segment **would continue to dominate** the market throughout the analysis period.
- The **retail stores sports apparel** segment would grow at a **CAGR of 3.1%** in the next three years.
- **Asia Pacific** would emerge as the **largest sports apparel** market by 2018

Sport Equipment, the ball sports driven segment

Sport equipment is another large industry segment with global sales around 90bn USD. It is one of the most mature sub-segments, which suffered in the past years the **aggressive market approach of the major brands in tennis and golf**. In these two categories in particular, the market benefited from the increase in penetration (number of people practicing) and the technical evolution of the equipment, especially on the weight/material side. The strong focus on **innovation and the aggressive pricing strategy** caused in the past five years an **abnormal increase of wholesale inventories** and the related de-stocking with material promotions every months.

GLOBAL SPORT EQUIPMENT MARKET SHARE



Source: EQUITA SIM

Despite this particular market phase, we see the **rising demand for lightweight sports equipment as the main driver for market growth in coming years**. Modern lightweight sports equipment help consumers yield high performance due to their excellent stiffness and high strength. Moreover, they also give full control to the user over the equipment and provide them with a high level of flexibility. Carbon fibre is emerging as a popular replacement for traditional metal, wood, and steel in modern sports equipment. The **ball sports segment maintain a dominant market share (between 20% and 25%).**
As a results and after a huge product rationalization among the main brands, the global sports equipment market is expected to grow at a **CAGR of around 3% in the coming years**.

The global popularity of sporting events such as cricket, basketball, and football is the key growth driver for this segment, which remains materially linked to the US consumers.

According to recent research, the dominant ball sports equipment market should reach a market value of around $20 billion by the end of 2020.
North America accounted for around 38% of the market share during 2015 and is expected to reach a revenue of around $31 billion by the end of 2020.

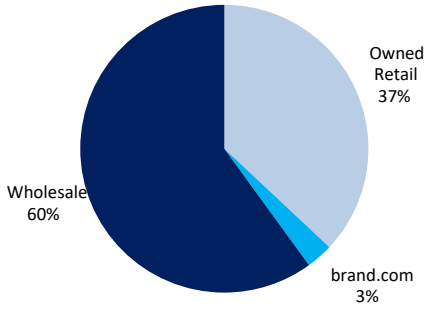
The main sports apparel and footwear companies have some exposure to this industry segment, but, a part from the case of Amer Sports, it is a small part of the business.

Direct to consumer, the structural change of the industry

In the past 10 years, most of the major sport goods brand and the two most famous brands (Adidas and Nike) in particular, started to increase the portion of business directly distributed to consumers by a physical store network and developing the e-commerce business.
The reasons behind are substantially two:

1. On **the physical network** side, the major benefits come from the possibility to better positioning the offer season by season and to better control the pricing. The maximisation of the full price sales (Adidas already reached the 50% and aims to get the 65% of total sales) is key to reinforce the gross margin, leaving it more stable and more protected vs. the FX and raw material fluctuation. A stable gross margin is also important to be more flexible in terms of marketing investments, another key success factor. Moreover, a better management of product and positioning allows the company to increase visibility on market inventories, to optimize the inventories management (purchaising management in general) and, last but not least, to track the consumer habits.
2. **The development of the e-commerce business** is linked to the company needs to be present in one of the more interesting channels around the world (the channel is growing above 20% every year), which allow the companies to better diversified the geographic exposure, leveraging OPEX. As we already explained for the DOS network, also the direct managed e-commerce platform allows the company to optimize inventories management and tracking.

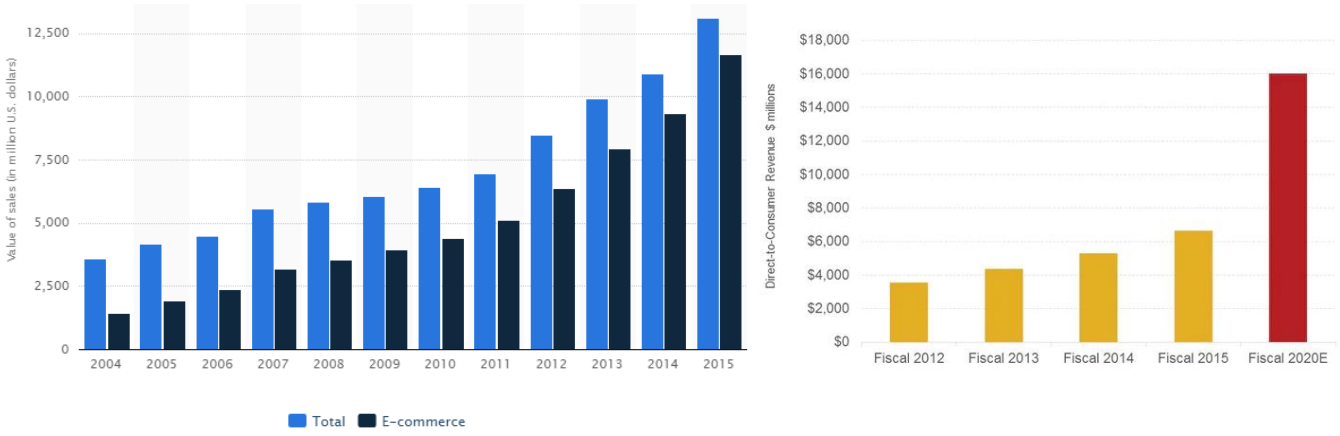
SECTOR REVENUES BY CHANNEL



Source: EQUITA

Among the sector, we underlying as Adidas and Nike, which account respectively circa 30% and 40% of total group revenues from the D2C (direct to consumer) channel, they are, at the same time, the best performer in terms of gross margin: around 46% for the US brand and above 49% for the German brand.

SPORT GOODS: ON-LINE SALES TREND IN NORTH AMERICA AND NIKE's DIRECT TO CONSUMER SALES PROJECTION (on the right)

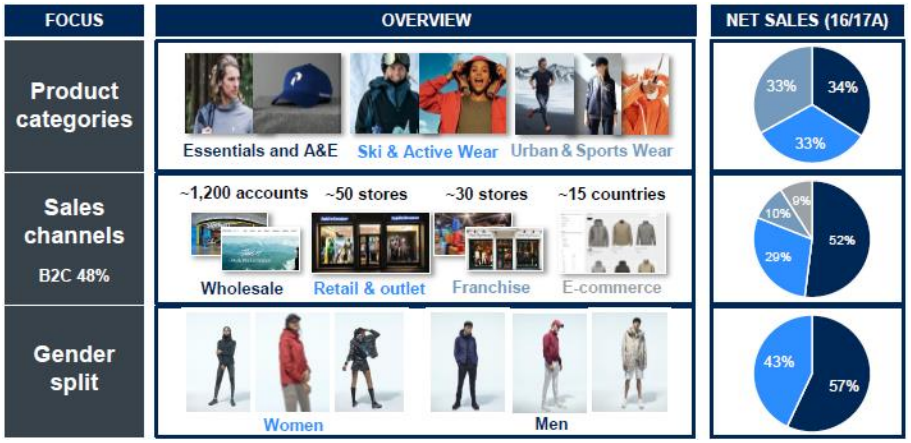


Source: Statista.com

On the other side, companies like **Amer Sports, which are today in the developing phase of the direct to consumer business** (DOS + e-commerce are circa 10% of revenues today), are **reporting a lower level of gross margin** and a higher volatility of top line, since they remain more exposed to the sell-in volatility and the high level of inventories that is present today, especially in the US market.
In the most important market for the sport goods, the current pressure on multi-brand sport goods retailers with a persistent oversupply is partially the result of the channel switch to brand direct operating stores and to the on-line channel.

Amer Sports is a good example as a company that is implementing strategic actions to increase the presence in the segments and the categories we defined before as the most important drivers for top line and margins.

Amer Sports announced the acquisition of `Peak Performance, a Swedish brand focused on sport apparel (skiing, biking and golfing) and urban wear with €145mn in sales. The deal, which values the Swedish company €255mn, has two purposes: completing the portfolio in the Softgoods division and **strengthening the exposure to the B2C**.



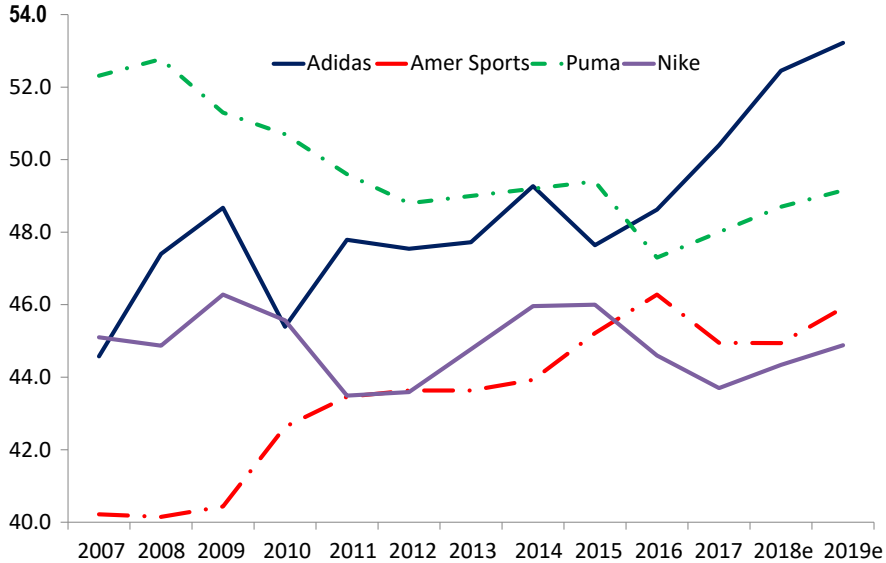
Source: Amer Sports

The management confirmed the intentions to focus on the consolidation and development of the current portfolio, without thinking about new acquisitions. The main benefits from a strategical point of view are:

i) Presence in **the streetwear and urban wear segment**;
ii) Growth of the offer for **female customers** (43% of Peak Performance revenues);
iii) **expansion of** the revenues share coming from **B2C channel** (from €250mn to €320mn);
iv) Potential development in the **Chinese market**.

The acquisition will bring €10mn in synergies at EBIT level (of which 50% coming from improved efficiency on the supply chain and 50% from additional revenues). Synergies will concern the next 2-3 years (limited impact on 2018). Taking into account the increase in the group`s earnings both for the synergies and the consolidation of Peak Performance, the EPS, adjusted for the additional interest expenses, will grow by 6.2% and 7.7% with respect to our estimates for 2019/20.

ADS & AMER: THE B2C BOOST ON GROSS MARGIN



Source: EQUITA

IMPORTANT DISCLOSURES APPEAR AT THE BACK OF THIS REPORT

THE GLOBAL FITNESS MARKET AND THE "WELLNESS" CONCEPT

The fitness **market has grown by over 10% since 2014 in the US**, the most developed and one of the most interesting markets for fitness equipment. It is also **expected to continue to grow mid-single digit** in the most representative markets around the world, particularly the EU and US. The fitness segment should be bolstered by a growing underlying trend thanks to the following:

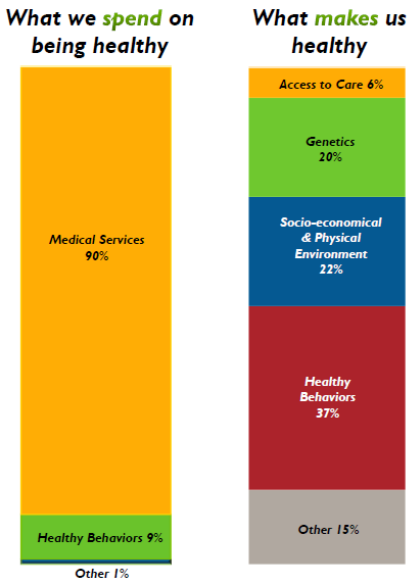
- **Rising interest in leading a healthy lifestyle** and keeping in shape: the increase awareness regarding health and fitness is higher in urban areas and in years to come, the market would witness steady growth in semi –urban areas of developing economies.

- Social trends such as the **progressive increase in the number of elderly people as a percentage of the overall population** and the consequent need to prevent or delay the onset of disease. In particular, a concerning rise in global obese population supplements the growth of the fitness equipment market. Fighting obesity is not just a matter of activity. Inactive but also lifestyle and dysfunctional diets causes the obesity, which is the first step in cardiovascular and lifestyle diseases. For this reasons we believe that social trends like rising obesity are more important speaking about the wellness concept than the simple fitness activity.

- **Governments' growing focus on health** and new policies to draw attention to the benefits of physical activity. The governments of developed countries are constantly in the process of conceptualizing and establish effective and timely healthcare offering across all sectors. This would increase the business of the fitness equipment, as a significant portion of the employee income would be invested in procuring fitness equipment and specific initiatives to better combine fitness with the lifestyle.

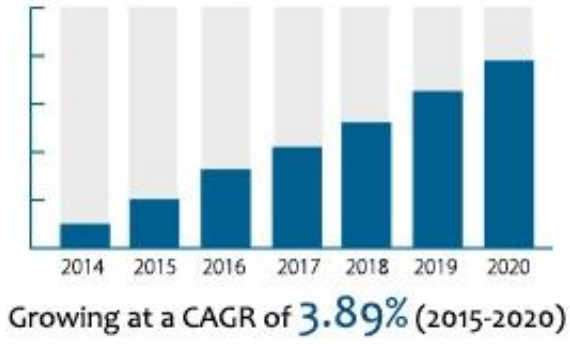
- A **combination of government and employer initiatives** to provide workers with more time and opportunity to engage in physical activity. While the high cost of the single fitness machines

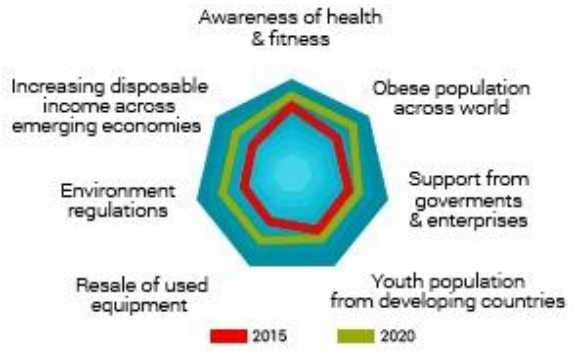
GLOBAL FITNESS EQUIPMENT MARKET



Source: Deloitte market research

GLOBAL FITNESS EQUIPMENT MARKET GROWTH AND TOP IMPACTING FACTORS



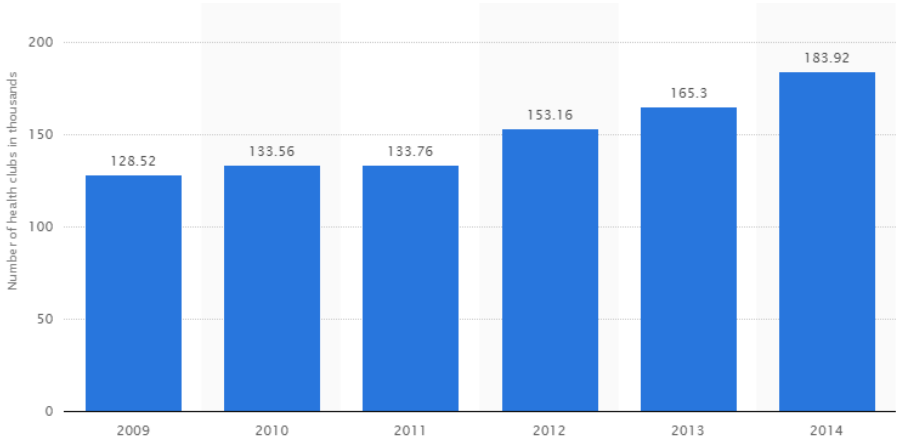


Source: Deloitte market research

Growing customer interest in wellness is driven by three specific trends:

- An **increase in the number of fitness clubs in recent years**, in addition to a growing interest in keeping in shape, personal training, etc.;
- Even greater **interest in fitness as a way of improving the performance of both professionals and amateurs**;
- The ever **growing perception that fitness is a fundamental part of recovery from surgery or illness in general**. Moreover, the increase in overall life expectancy has led to greater focus on keeping fit in preparation for old age.

TOTAL NUMBER OF HEALTH AND FITNESS CLUBS WORLDWIDE



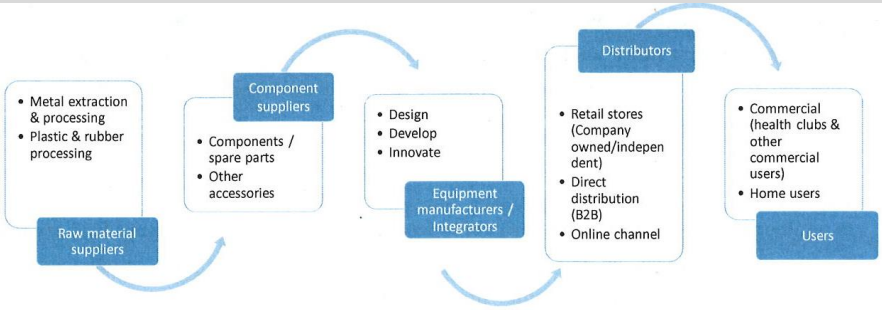
Source: Statista.com

The industry value chain

To analyse the industry value chain is really important to better understand the structural differences between the traditional fitness business and the developing wellness industry.

The base of the value chain for the traditional fitness industry comprises various stakeholders that include material processing companies, equipment manufacturers, distributors and the users of the equipment.

VALUE CHAIN MODEL OF FITNESS EQUIPMENT MARKET

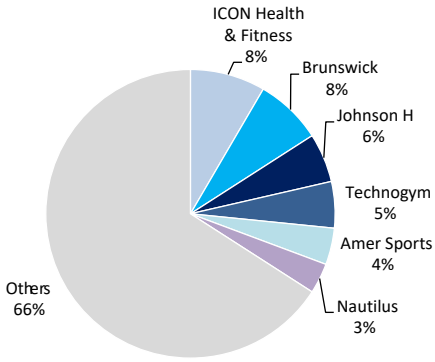


Source: Company data

About the **suppliers,** we highlight that the several producer evolved in the production process ensure a smooth supply at various manufacturing and production stages. Metal is most significant component used for the manufacturing of most fitness equipment. In this part of the value chain we see two factors of differentiation for the industry players: the first one is related to the design.
The company that want to **offer something different and exclusive in terms of combining functionality and design needs to have the support of specialized supplier**s, which are very often very small company of single artisan. This become at the same time source of differentiation and value offering, but also a strong barriers to entry for other players.

The second point is mostly related to the developing concept of wellness, which is not only focused to the training activity, but to the combined attitude in nutrition, sport activity and in everyday life. On this basis, the unique combine offer of connectivity, services, applications and equipment, is becoming even more important.
In this sense, one of the difference we are seeing in the market is between producers that directly develop the connectivity (the fitness machine and the connectivity features are developed together step by step) and the possibility to add to the machine connectivity features.

GLOBAL MARKET SHARE ANALYSIS 2016



Source: EQUITA SIM

The second key factor of the value chain is distribution and communication. Basically, the distributors of the **fitness equipment are mainly wholesaler and primarily focused on the B2B channel. In some cases the distribution comprise retail stores owned by equipment manufacturers, retail stores of resellers and online stores**. The role of online stores and direct stores of manufacturers is comparatively lesser in the market. However, some established players such as Nautilus depend on direct sales of their product in the market. To support the sales force activity, **Technogym opened some flagship stores in the tier one location to better show product, philosophy and value added application of the equipment**, as part of the full "wellness" lifestyle concept.

If we analyse the three years **between the beginning of 2013 and the end of 2015, it becomes clear that Technogym's multichannel structure was important in creating operating leverage**. In particular, the sizeable investments made in past years (reported directly as OPEX with a very small portion capitalised) started to be levered in 2013, the first year of double digit growth for the three direct channels of field sales, retail and inside sales. As a result, Technogym achieved an average EBIT margin improvement of 400 bps per **year between FY 2013 and FY 2015.**

Although costly at first, the direct distribution channel and the directly managed and trained sales force is a key factor to **unlocking the value hidden in the digital infrastructure and services Technogym offers behind the concept of the wellness lifestyle**.

The Technogym business model is based on the idea that fitness machines are just one part of the structured offer that make Technogym the only total wellness solution provider in the world. This means that customers should have a quick and personalised solution for their needs in terms of:

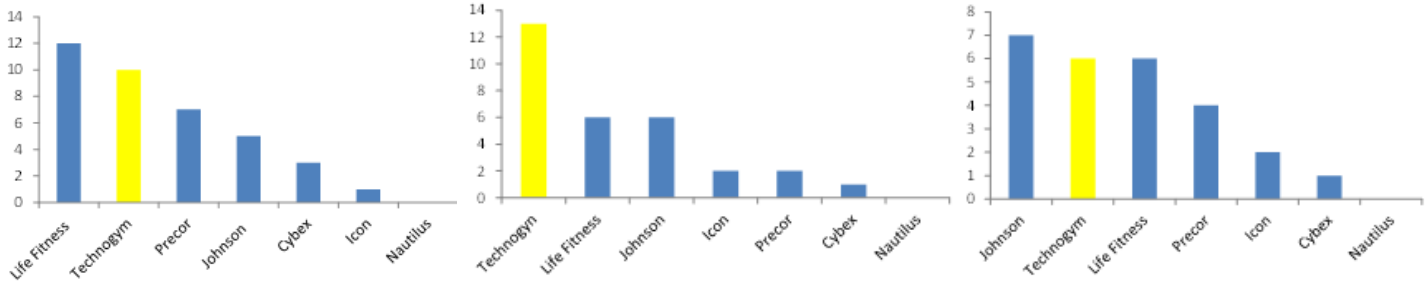
- **Training management in every location** (indoor, outdoor, travel, etc.);
- **Consulting solutions** for the professional operator on how to run, build and structure their business offer; in this case Technogym becomes a real partner for its customers;
- **Design & space management**;
- **Customised digital solutions**.

The Fitness market has been dominated for many years by the US players. All in all, **Technogym is the leading player in the fitness equipment sector in Europe and a close runner-up globally**. Since its inception, Technogym has been building its brand by focusing on innovation, technology and design, and developing a connection with its end-consumers, which is a differentiating factor in what is mainly a commercial industry. **As a result, Technogym has become the leader player in the EU with a 13% market share and a close runner-up globally**.

■ The wellness concept and the additional growth opportunity

The modern use of the word "wellness" dates to the 1950s, according to the Global Wellness Institute definition, and a seminal – but little known – work by physician Halbert L. Dunn, called High-Level Wellness (published1961). But it was only between the **1980 and 2000**, that the **wellness movement begins to gain momentum, and get taken more seriously by the medical, academic and corporate worlds**.

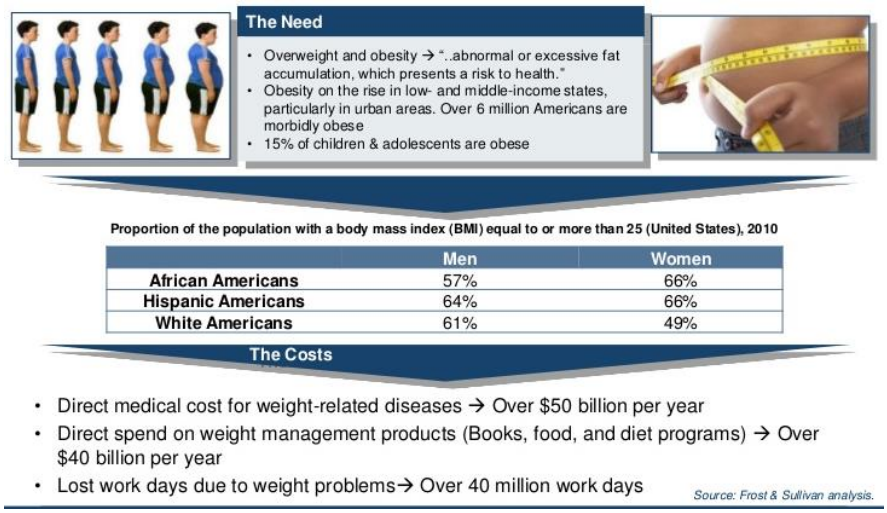
FITNESS EQUIPMENT MARKET SHARE (from the left) – WORLDWIDE (B2B)- EU (B2B & B2C) – ROW (B2B & B2C)



Source: Technogym (market share data are based on 2014 picture)

More government-sponsored programs to promote healthier lifestyles launched in the western World. At the latter end of the 20th century, many corporations began developing workplace wellness programs. The fitness and spa industries globally experienced rapid growth. And an ever-growing line-up of celebrities and self-help experts started bringing wellness concepts to a mainstream audience. However, despite all these disparate developments, this momentum had not yet coalesced under the formal banner of a "wellness industry."

WEIGHT MANAGEMENT SOLUTION WILL DOMINATE THE FOOD INDUSTRY

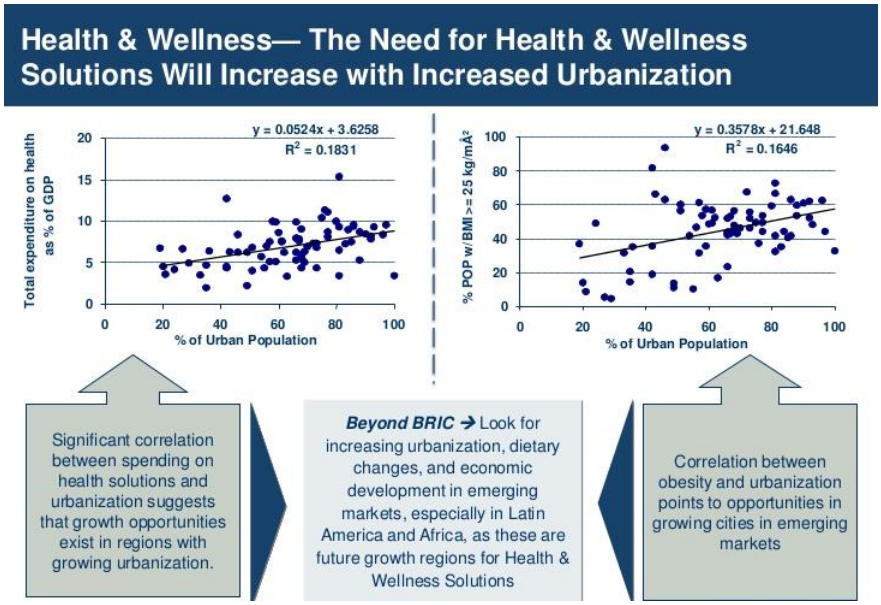


Source: Global Wellness Institute

With a **chronic disease and obesity crisis raging worldwide in this century**, leading to unsustainable healthcare costs, **the traditional medical establishment and more governments are shifting the focus to prevention and wellness**. For instance, if, in the 90s, most academic medical centers had an adversarial stance towards complementary medicine, now many of the most elite institutions in the world feature Integrative Medicine departments. In 1999, in the U.S., eight medical institutions (including Harvard, Stanford, etc.) convened at a historic conference dedicated to research on complementary medicine, wellness and prevention.

The wellness concept is something more than a simple training or a simple way to rise commitment for sport and activity together with a more balance diet. Wellness should be something that **should have a deep impact on the people lifestyle every day and every time**, **including when people are at work, which means most of the people daily life.**

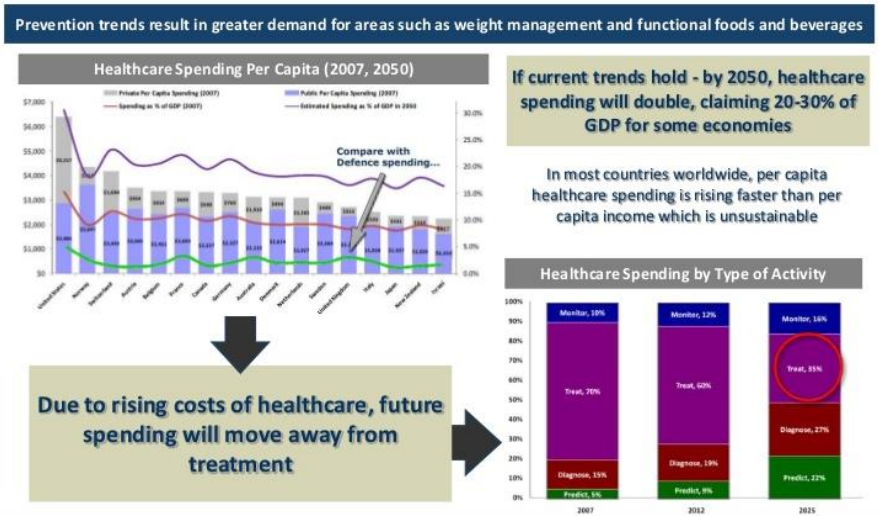
THE NEED OF WELLNESS SOLUTION INCREASE WITH THE URBANIZATION



Source: Global Wellness Institute

Looking at the chart below, there is a huge correlation between the Urbanization (city life with 10/12 hour per day at work, a lot of stress, pressure for performance and generally wrong eating habits.

THE CHANGE IN HEALTHCARE TRENDS: FROM TREATMENT TO PREVENTION



Source: Global Wellness Institute

Summarising, the **wellness concept** is something more and more structured vs. the simple concept of fitness and training. It **is a concept that tries to combine several different activities, focus on prevention and diet, as well as the psychological aspect, especially at work, where people spend most of its life. It is perfectly aligned to the old Latin concept of "Mens sana in corpore sano"**.

There are four macro trend that define the perimeter of wellness:

1. **Increased interest of consumer for self-care and well being**. In particular, the aim is to combine fitness for a balanced lifestyle keeping; athletic training to increase performance; health prevention to complete the uplift of the quality of life.
2. **Aeging population emphasized prevention and heath needs**: in this case the milestone is prevention. People has increased attention toward activities to

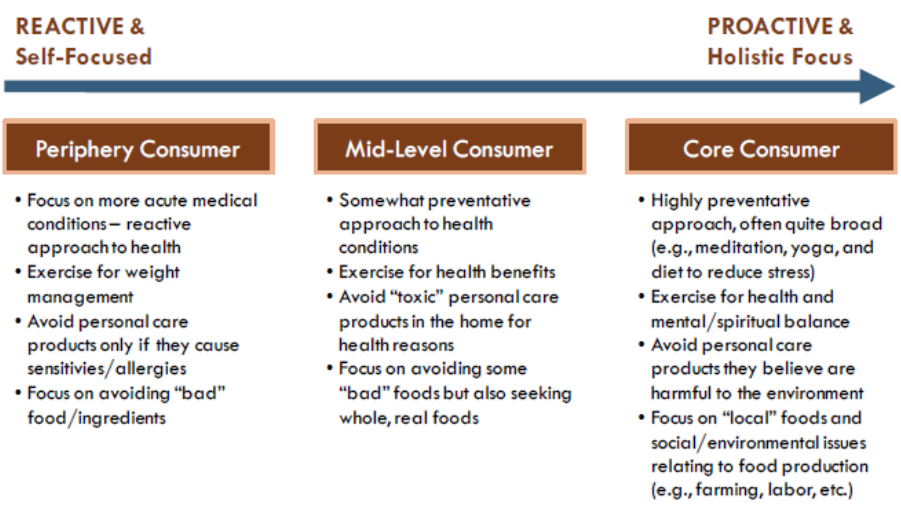
secure healthy leaving. People are more focused on health product to create the basis for self-sufficiency .

3. **Governements around the world are facing the combination of deficit and aeging population**, which means they need to reduce and to increase flexibility on healthcare costs and to increase quality of care and prevention.
4. **Corporates**, in which most of people are spending its day, are today more **focused on employee's wellness and HP cost reduction**. This approach is not just a new social angle of view of the phenomenon, but a way to increase also workforce productivity and talent retentions. The reduction of health expenses allow the company to provide attractive benefit plants.

On this basis, we believe that the **wellness trends could add growth** to the fitness company well prepared to face it. **Technogym is**, in our opinion, **the only pure wellness company, and could continue to overperform the market growth**.
According to the recent statistics, the **fitness equipment** market should continue to grow **CAGR between 2016 and 2022 in the range of a mid-single digit average level.**
If North America and EU should be the worst performer with a 3% CAGR 2016/2022A, the emerging countries and in particular Asia Pacific regions will lead the industry with an average growth rate around 7%.

We believe that the exposure to the Wellness trend, still with a low penetration vs. the global potential users, could add additional 3%/4% of revenues CAGR in the same period. On this basis, we expect Technogym to continue to outperform the pure fitness peers in the mid term.

CONSUMER EVOLVE TOWARD A HOLISTIC CONCEPT OF WELLNESS



Source: Global Wellness Institute

■ How to capture the Wellness opportunity

We believe that **Technogym is well-positioned to benefit from the strong sector dynamics**, which are boosted by a widespread growing interest in a healthy lifestyle. The fitness equipment sector is expected to grow mid-single digit in the next four/five years (according to recent sector statistics) and Technogym, on the basis of a solid sector underlying trend, could boost its revenues and its profitability thanks to:

- **Consolidation of its leadership position in Europe** through even better recognition of Technogym's deep focus on innovation, design and its increasingly diversified offer;
- Increasing of recognition of **Technogym as a total wellness solution brand**. Its offer is based on all-round assistance to improve the customer's experience and increase their loyalty;

- **Interesting opportunities in the US** (we estimates circa 2% of market share), which is still the biggest market for the fitness industry in both the B2B and B2C segments;
- **Leading position in connectivity and digital solutions** for fitness, which are part of the Technogym ethos to take better care of clients during every step of their training, both indoor and outdoor and also whilst travelling;
- Development **of the Omni-channel distribution** model.

Technogym is the only company in the sector that could offer to its customers a complete portfolio in terms of categories (Cardio, Strength, Functional & Flexibility, Group activities, Medical etc.). To be present in all the traditional categories and to include several professional innovation like mycicling, the skill run or the last year launched, the Skill bike, is really important to create the base on which the company could built the remaining part of the business like the commercial services and the services to consumer, together with the part of the business related to the Application, Devices and contents.

All this offer together (from equipment to contents) represents the idea of "Total Wellness solutions", which is the key of current Technogym success.

TECHNOGYM: 30 YEARS OF INNOVATION



Source: Technogym

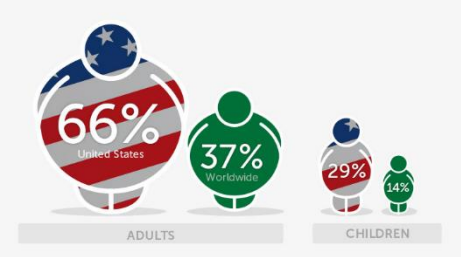
The company invested heavily in the years between 2010 and 2013, especially in marketing, R&D and distribution (sales force), with a material negative impact on the P&L (only a result of past investments), which leverages the cost structure. We believe the company could continue to **further leverage its structure thanks to favourable global demand for fitness (approx. 4% expected CAGR 2015/20),** which could drive **Technogym's top line to a 7% 5Y organic revenue CAGR** (above the average market trend thanks to price/mix effect), **a solid base for a 5Y EPS CAGR of 18%**.

US opportunity

The US market is the most important in the fitness equipment sector and is worth around €3.2 bn vs. the €7.5bn of the global fitness equipment market (40%). The US is **the only market in which the company is not among the three first players**. The reasons are mainly related to the fact that customer habits are different in this particular market, which has always been characterised by a very fragmented distribution channel and is more price than value added driven.

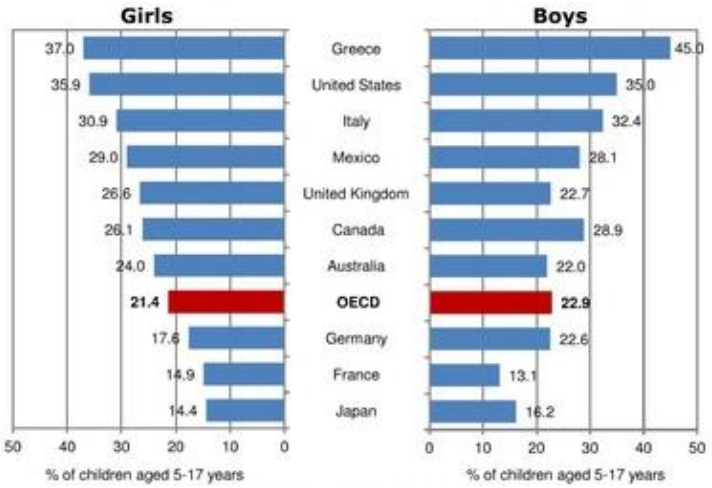
Technogym's aim is to gain market share by approaching the market through the B2B segment and in big cities in particular, where it could be helped by cooperation with important and famous clubs. Here Technogym is bringing an innovative approach to gyms: the majority of clubs are currently a conglomerate of several different brands, with different interfaces and software which cannot be interconnected. Technogym offers the best solution to manage every single personal training plan.

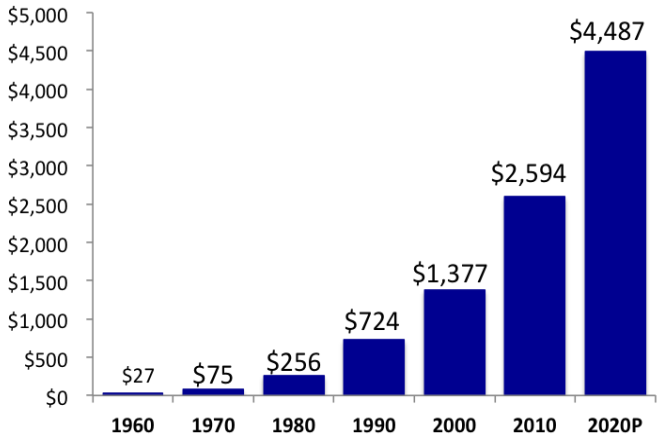
THE OBESITY EPIDEMIC IN US



Source: Global Wellness Institute

1/3 OF CHILDREN ARE OVERWEIGHT IN THE US – THE UNSUSTAINABLE HEALTHCARE SYSTEM COSTS (in bn USD)

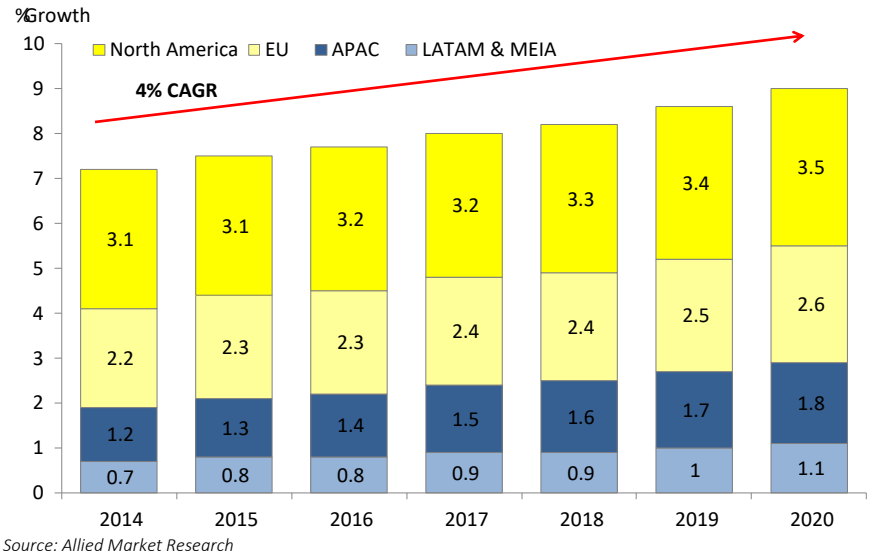




Source: Statista.com & EQUITA sim elaboration

We expect Technogym to take a big step forward in the mid-term in the US; if it were able to reach a **roughly 4% market share in the next four years, the US division would grow by an approx. 20% CAGR in the next four years**, making a sizeable contribution in terms of operating leverage.

FITNESS MACHINE MARKET GROWTH BY COUNTRY (2014-2020)



Source: Allied Market Research

IMPORTANT DISCLOSURES APPEAR AT THE BACK OF THIS REPORT

It is also worth noting that the huge increase in healthcare costs in the US has compelled the **Government to offer tax breaks for companies that give employees the opportunity to help fight cardiovascular disease and obesity with physical activity**, directly at their place of work.

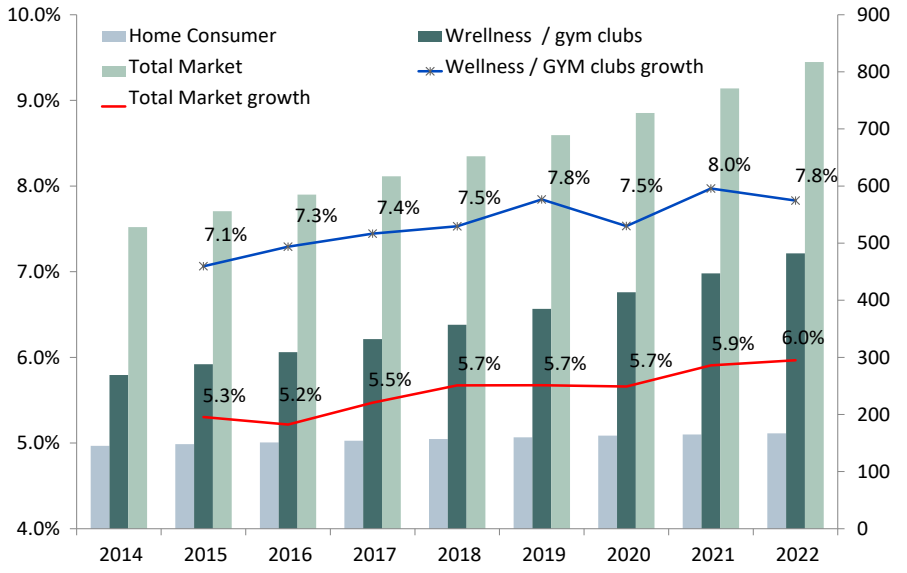
The MEIA opportunity

The MEIA aggregate includes regions such as Middle East, Africa and Russia. The number of health clubs coupled in few years together with an important increase of gym membership in the regions, driven by an average increase of pro-capita income and rising health concerns. Hotels in both luxury and business sectors have increased their investments in premium fitness equipment.

Iti is worth mentioning that the fitness equipment market is growing driven by several factors like the rapid economic growth, growing urbanization and changing in customer lifestyle. All these changes together and the influence of the western culture on dietary habits has boosted the perception of wellness as a base concept to improve the quality of life. This is, also in these countries, the strongest driver for fitness equipment.

The MEIA fitness equipment market was valued $556mn in 2015 and it is expected to reach $817mn by 2022, with a CAGR of +5.7% per year. The biggest sub-segment is “cardio”, which should account circa 50% of total business in 2022.

MEIA MARKET: THE SUPERIOR OPPORTUNITY OF THE WELLNESS CONCEPT



Source: EQUITA

FACT & FIGURES SPORT GOODS : GOOD START OF 2018, BUT THE MOOD REMAIN CAUTIONS ON MID TERM

■ Too early to call for upside in estimates, low visibility in the short term.

Few uncertainties are pending on the outlook for this year, while most of the players seem not to have a clear visibility for the 2H of 2018, especially considering:

1. **Persisting promotional environment in the US**, as a result of the structural problems faced by the general sport retailers, and the expected **normalization of strong demand** we saw **in Western EU**, especially for Adidas.
2. **FX pressure due to the imbalance between revenues and costs in USD** (excluding Nike). Most of the players have been **already completed hedging** (accelerated after the USD appreciation of last year) for 2017 and part of 2018. The USD weakness is expected to be positive on gross margin starting from 2019.
3. **Russia/CIS market still under pressure**. The FIFA World Cup event could revamp revenues for Puma, Adidas and Nike in particular, but the underlying demand and the macro-political environment remain full of uncertainty.
4. **Sponsoring, distribution, and general marketing spending** remain strategic for the industry. The less tonic top line could put pressure on operating margin.

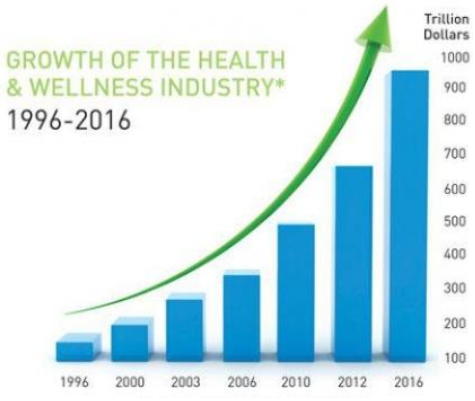
We believe that the **sector could face a period of normalization** with average top line **organic growth at mid-single digit**, on average, with Adidas outperformer (mid to high single digit), benefiting from its still low market share in US and its strong focus on retail. Moreover, the huge exposure to soccer team and event could also give additional support in the year of the FIFA World Cup event. Consensus estimates seems to be already at this level of growth, despite recent estimates reduction.

Company	Currency	Revenues FY17	Revenues Organic growth	Revenues growth surprise	Earnings Momentum Index	Guidance
AMER SPORTS	EUR	2685.2	2.4%	0.4%	-0.13	In 2018, Amer Sports' net sales in local currencies as well as EBIT excl. IAC are expected to increase from 2017. Due to ongoing wholesale market uncertainties, the quarterly growth and improvement are expected to be uneven. The company will focus on its five strategic priorities (Apparel and Footwear, Direct to Consumer, China,US, and Connected Devices and Services).
NIKE	USD	34350.0	6.1%	0.2%	0.18	Our new innovation is winning with consumers, driving significant momentum in our international geographies and a return to growth in North America," said Mark Parker, Chairman, President and CEO, NIKE, Inc. "Fueled by a complete digital transformation of our company end-to-end, this year set the foundation for Nike's next wave of long-term, sustainable growth and profitability
adidas	EUR	21217.0	10.0%	-0.3%	0.11	Outlook for 2018 confirmed at the end of 1Q18 with net sales growth of 10% (ex-forex) and net operating profit increase between 9% and 13%.
PUMA	EUR	4135.9	14.0%	-0.4%	0.05	Slightly revised guidance: Currency-adjusted net sales to grow between 10% and 12% (prev. 10%), EBIT FY18 between €310-330mn (€305-325mn) and net earnings expected to improve significantly.

Source: Company Release, Bloomberg and Equita

FACT & FIGURES WELLNES SEGMENT: IS THE BEST YET TO COME?

A NEW ONE TRILLION INDUSTRY



Source: Equita SIM

- **We believe the wellness opportunity is not totally discounted by the market.**

Most of the investors are still questioning about current growth rate sustainability in coming years, especially in the key markets like US where the comparison base is even more difficult year by year and most of the prime customers in the big cities Technogym are going to face a more competitive environment, since the other players have started to react and to innovate offer and products.

Despite the threats explained above, we remain fully convinced that the wellness opportunity is not fully covered by the market players, with market penetration that remains still low considering the full potential of wellness as a social trend. We believe that Technogym growth opportunities could increase in the next year and its growth profile could remain at list intact at high single digit, including:

- Between **3% and 4% of top line growth is supported by underlying fitness** market demand.
- Circa **2% as a contribution from new market** penetration/market share gains worldwide.
- Circa **3% of additional growth potential from the wellness concept** expansion.

Company	Currency	Revenues FY17 /000	Revenues Organic growth	Revenues growth surprise	Earnings Momentum Index	Guidance
TECHNOGYM	EUR	597.7	7.7%	-0.1%	0.25	The company confirm the solid trend seen in the FY17 could be a good proxy of what we could see in 2018. The order backlog is supportive to continue to deliver mid to high single digit revenues growth with margin expansion.
NAUTILUS	USD	406.2	0.0%	-0.2%	0.43	Revenues growth guidance for 2018 between 5.3% - 7.6%, operating income growth expected between -6% and 0% due to unfavorable exchange rates impact and, material cost increases in addition to profit offsetting by investments.
JOHNSON	USD	n.a	n.a	n.a	n.a	n.a.
PRECOR	EUR	361.0	3.4%	n.a.	n.a.	Amer Sports gave a group guidance, not split by division. The only detail available on the Fitness division is that net sales and ebit decreased in the 1Q18 compared to the same period of the previous year but they are both biased to the second half of the year.

Source: Company Release, Bloomberg and Equita

IMPORTANT DISCLOSURES APPEAR AT THE BACK OF THIS REPORT

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Recommendation/Rating	Low Risk	Medium Risk	High Risk
BUY	ETR >= 10%	ETR >= 15%	ETR >= 20%
HOLD	-5% <ETR< 10%	-5% <ETR< 15%	0% <ETR< 20%
REDUCE	ETR <= -5%	ETR <= -5%	ETR <= 0%

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