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Private Equity Challenge: Investment Committee Paper of Technogym – Financial Modelling

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## **Abstract**

Technogym is an industry leading fitness equipment manufacturer operating in more than 100 countries. It has a strong and consistent cashflow generation, providing a good leveraged buyout (LBO) target. Its €159M Adjusted EBITDA over the last 12 months marks an historical high. Value creation potential stems from stores and partnerships expansion, entry into sports nutrition via M&A and further organic growth. An entry Multiple of 13.3x implies an enterprise value of €2,1B. With 6.3x of leverage, the LBO model delivers a 3.3x Money Multiple and 24.5% IRR over a 5.5-year investment horizon.

## **Keywords**

Investment Committee Paper, Private Equity, LBO, Fitness Equipment, Technogym

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**Private Equity Challenge Group Component**

## **1. Investment Committee Paper Summary – Group Component**

### **1.1. Company Overview**

Technogym, founded in 1983 by Nerio Alessandri in Italy, has become a global leader in the fitness equipment industry. Over the last 40 years, the company has gained a reputation for combining innovation, quality, and exceptional design, establishing itself as a premium brand. Technogym offers a comprehensive portfolio of fitness equipment, from advanced cardio machines to strength-training solutions. However, what distinguishes itself from the competition is the integration of these products into a digital ecosystem allowing the end user to access personalized training programs, track their fitness progress, and connect with wellness professionals. The digital ecosystem includes six apps focused on both B2B and B2C clients, while providing a technical app to configurate its equipment. Technogym's *Total Wellness Solution* reflects the strategic vision of its management team, led by Nerio Alessandri. This experienced team, with expertise spanning investment banking, corporate governance, legal affairs, technology, and strategic business development, has been key to the company's innovation and global growth. Their leadership has enabled Technogym to establish a presence in over 100 countries, diversify its revenue streams, and achieve record revenues in 2023. In fact, Technogym's revenue streams are well-diversified, with 80% derived from premium fitness equipment and digital subscriptions, and 20% from after-sales services, such as equipment maintenance. These products and services are distributed through two main channels: direct sales, including field sales, inside sales, and retail stores, which account for 76% of revenues, and indirect sales via third-party representatives, contributing to the remaining 24%. This robust distribution network supports Technogym's broad customer base, with 79% of revenues generated from B2B clients, such as gyms, health clubs, and corporate wellness programs, while individual consumers (B2C) account for the other 21%. Geographically, the company maintains a strong presence in Europe, which contributes 56% of

total revenue, while MEIA, APAC, and North America each provide balanced contributions close to 14%. LATAM represents the smallest share, accounting for just 3% of revenues. This diversified revenue mix highlights Technogym's ability to balance product offerings, distribution strategies, and geographic reach effectively. Moreover, Technogym has positioned itself as a sustainability leader, leveraging eco-friendly materials and energy-efficient technologies in its product development and operations. These initiatives align with the growing emphasis on ESG criteria, enhancing the brand's market appeal. This ongoing commitment to innovation and sustainability is reflected in their financial performance.

Technogym has shown consistent growth, with revenues rising from €668M in 2019 to €808M in 2023, reflecting a compound annual growth rate (CAGR) of 4.8%. Adjusted EBITDA also increased from €147M to €152M during the same period (CAGR 2019-23 of 0.7%). Despite the challenges of the COVID-19 pandemic, Technogym's recovery has been remarkable. Using 2020 as a baseline, revenues and adjusted EBITDA grew at an impressive CAGR's of 16.6% and 16.2%, respectively, outpacing the market by an annual average of 9% from 2020 to 2023. This performance reflects the success of its premium pricing strategy, operational efficiencies, and sustained R&D investments. Leveraging its innovation, sustainability focus, and customer-centric approach, Technogym has solidified its position as a leader in fitness and wellness.

## **1.2. Historic Financials**

Technogym's robust revenue growth surpassed pre-COVID levels with €808M in 2023 and reaching €840M in the last twelve months (LTM). This sustained growth has been driven by a strong B2B performance, particularly in the health and prevention sector, which has experienced double-digit growth over the last three years due to rising demand for wellness solutions. From a geographic perspective, the regions contributing most to revenue growth include MEIA, North America, and Europe. Considering revenue mix, a notable shift has occurred, with services gaining a greater share (going from 15% of revenues in 2019 to 20% in

2023) and showing significant growth. This shift has helped Technogym maintain gross margins despite external challenges, including supply chain disruptions triggered by COVID and the Russia-Ukraine conflict, which led to increased raw material costs, driving growth in COGS that outpaced revenue growth until 2023. The gross margin declined slightly from 67.4% in 2020 to 65.6% in 2022 but recovered to 66.6% in 2023, supported by a higher contribution from services and effective cost management. Adjusted EBITDA for 2023, excluding non-recurring expenses, was €152M, with an adjusted EBITDA margin of 18.8%. While this is below the pre-pandemic margin of 22% in 2019, Technogym remains a leader in the industry with one of the highest adjusted EBITDA margins and clear potential for improvement. Key opportunities for margin enhancement include optimizing service costs and personnel expenses, which represented 46.7% of revenues in 2023. Analyzing Technogym's balance sheet, cash and equivalents have shown consistent growth, apart from 2021, when €127M were allocated to financing activities. Total debt has decreased to approximately €100M over the past two years, down from a peak of €144M in 2020, during COVID-related disruptions. Presently, the company operates without any bank debt, providing significant flexibility to optimize its capital structure and leverage future growth opportunities. Net debt has been consistently negative and improving, with Net Debt/EBITDA strengthening from -0.02x to -0.81x during the observed period, highlighting a conservative leverage strategy that ensures financial resilience while enabling capacity for strategic investments. With respect to net working capital (NWC), it has decreased over time, turning negative in 2020 and remaining so as the business expands, illustrating effective cash management. This enables operations to generate cash rather than requiring additional funds, thereby supporting CAPEX and growth initiatives. In 2023, NWC increased by €8M, driven by a rise in trade receivables linked to higher volume B2B sales. Nevertheless, the negative NWC remains a strong indicator of effective cash management. Technogym benefits from a negative and declining cash conversion cycle (CCC), allowing it to

collect payments faster than it pays suppliers, boosting liquidity and its NWC position. Regarding CAPEX, a consistent increase (of 4% to 5% of revenues) reflects a commitment to expansion and reinvestment. Collectively, these factors position Technogym to sustain its growth trajectory while preserving flexibility to refine its capital structure.

### **1.3. Market Overview**

The global fitness equipment market is positioned for substantial growth, projected to expand at a CAGR of 9.1% from €14.5B in 2023 to €24.5B in 2029 (Marketline, 2024). This significant expansion is driven by increasing global health awareness, rising disposable incomes, and an accelerating demand for data-driven workout solutions. Technological advancements, such as integrated smart features, are reshaping the industry as consumers increasingly prioritize personalization and digital connectivity in their fitness experiences. These trends align closely with Technogym's integrated offerings positioning Technogym as a leader in this evolving landscape. The fitness equipment market remains moderately fragmented, boosting innovation and differentiation. Growth is evident across B2B and B2C sectors, with boutique fitness centers, corporate wellness programs, and home gyms representing critical areas of expansion. Long-term behavioral changes stemming from the COVID-19 pandemic, including increased remote work flexibility and cost-saving preferences, have fueled home gyms' demand. Simultaneously, corporate wellness initiatives have gained prominence as employers emphasize workforce health and productivity. Furthermore, government-led initiatives, including public health campaigns and incentives to combat obesity and promote physical activity, are bolstering market growth and supporting industry's expansion. Geographically, Europe and North America lead the global fitness equipment market, accounting for 36% and 33% of the overall share, respectively (Marketline, 2024). This dominance is underpinned by mature infrastructure and superior consumer spending. Europe is characterized by its higher consumer loyalty to premium fitness brands, while the North American market is estimated to

experience a superior CAGR of 11.1% from 2024 to 2029, compared to 8.3% in Europe. While smaller in scale, markets in Latin America and the Middle East are also poised for notable growth, driven by emerging fitness trends and rising wellness awareness (Marketline, 2024). Growth within end markets such as hospitality, healthcare, and residential sectors is expected to influence significantly the overall expansion of the fitness equipment industry. Hotels and resorts, for instance, are projected to grow at a CAGR of 18.8% from 2025 to 2030 (Grand View Research, 2024), incorporating fitness amenities to attract and retain clients. In developed economies, the aging population is driving rehabilitation and preventative health services, while residential users prioritize privacy, accessibility, and connectivity.

To assess the competitive dynamics of the fitness equipment industry, Porter's Five Forces will be analyzed sequentially, starting from the least impactful to the most influential on Technogym's performance. The threat of new entrants is moderate, as the industry requires substantial capital investment, technological expertise, and brand establishment to achieve significant market penetration, sizable barriers that protect established players like Technogym. The threat of substitutes is moderate, as consumers may opt for alternatives to exercise such as outdoor activities or yoga. However, Technogym's integration of hardware and digital solutions reduces this risk, particularly for B2B clients seeking a complete fitness ecosystem. The bargaining power of buyers varies; while B2B buyers may exert negotiating power due to bulk purchases and access to other suppliers, Technogym's premium brand and ecosystem integration mitigate this pressure. The bargaining power of suppliers is relatively low for Technogym, as its vertical integration avoids over relying on specialized components, limiting supplier's leverage. Competitive rivalry is high, with brands like Peloton, Johnson Health Tech, Dyaco, and Impulse competing for market share. Technogym differentiates itself with strong branding, innovative solutions, and an integrated digital ecosystem, providing a unique edge.

#### **1.4. Valuation**

The valuation of Technogym was based on its LTM EBITDA of €159M, as this metric reflects the most recent adjustments. To ensure a robust analysis, seven distinct valuation methodologies were employed, each assigned a specific weight to derive the final EBITDA entry multiple. These approaches included trading comparables using EV/EBITDA and EV/EBIT ratios for both LTM and 10-year averages, precedent transactions, and discounted cash flow (DCF) models utilizing the Gordon Growth and exit multiple approaches. The Weighted Average Cost of Capital (WACC) was calculated for the DCF valuation, resulting in a final value of 8.34%, with inputs including a beta of 0.76, a cost of equity of 6.94%, and a cost of debt of 3.91%. (Bloomberg, 2024) After applying the weighted methodologies, the final EBITDA entry multiple was determined to be 13.3x, implying an Enterprise Value (EV) of €2,123M for Technogym. For Enervit, the analysis began with the share price as of June 28, 2024 (€3.26), translating to a market capitalization of €58M. To refine this value, precedent transactions in the industry were analyzed, to assess the average acquisition premium, which yielded a value of 19.5%. This premium was applied to the share price to estimate an adjusted equity value. Adjustments for cash, debt, long-term equity investments, and capital leases followed, resulting in an EV of €69.3M for Enervit and an implied entry multiple of 7.9x.

#### **1.5. Investment Thesis**

Technogym presents a highly compelling investment opportunity rooted in its prestigious reputation in the fitness and wellness industry, solid financial historical performance, and a comprehensive strategic plan designed to maximize growth and operational efficiencies. The combination of accelerating market growth (CAGR of 9.1 % until 2029) and increasing demand for digital and personalized fitness solutions aligns seamlessly with Technogym's strategic positioning and vision. Technogym's management team, with extensive cross-industry experience and over 40 years of leadership from co-founders and senior executives, ensures

organizational stability and deep knowledge critical for global business expansion. Technogym's market positioning and growing market share highlight its competitive edge and full alignment with industry needs. Its consistent EBITDA margin of 19% significantly outperforms the market, indicating superior efficiency. Meanwhile, Technogym developed partnerships in the world's major sporting events, adding to its brand recognition and power. Partnerships with major global sporting events further enhance brand recognition and strengthen the company's competitive edge. Strong cash flow generation, reflected in unlevered free cash flows of €86M in 2023, demonstrates a solid capacity for debt repayment and strategic acquisitions. A proven growth strategy, supported by historical performance, and a negative net debt position provide a foundation for optimizing the capital structure. The downturn in operational margins post-COVID presents opportunities to dilute fixed costs further and achieve economies of scale, unlocking additional potential for margin expansion. A well-established global presence enables meaningful opportunities for organic and international growth. These attributes collectively establish Technogym as an attractive target for an LBO.

## **1.6. Value Creation**

To capitalize on Technogym's strong market position and potential, four strategic approaches have been outlined to maximize value creation. The focus on business expansion aims to capture market share and top-line growth through initiatives such as international expansion, technological optimization and partnership leveraging. Also, capital structure will be optimized, leveraging strong cash flow generation and negative debt position, improving projected FCFs and creating value for shareholders. In addition, operating efficiencies are anticipated, resulting in an improvement in the EBITDA margin. Lastly, the horizontal integration of Enervit will stimulate revenue growth and strengthen Technogym's market position.

## **1.6.1. Business Expansion**

### **International Expansion**

Technogym's current revenue stream is heavily concentrated in Europe, increasing exposure to potential local economic downturns and limiting broader growth opportunities.

#### Target Geographies

When analyzing potential target markets, North America emerges as a compelling option due to several key advantages: a strong projected market growth rate of 11% CAGR until 2029 (Marketline, 2024), significant similarities to Technogym's home market (Europe), and cultural alignment with its core value drivers, including brand recognition and innovation. To support this expansion, a representative will be appointed, with Marco Crespo, a key figure in the U.S. growth of the Brazilian startup GymPass, being a strong candidate. Moreover, two backup options were also considered. Within the U.S., focusing on California, Texas, Florida, and New York is expected to deliver the best results, as these states have the highest concentration of gyms and fitness clubs. Additionally, the Middle East offers significant growth potential, with cities like Riyadh, Doha, Dubai, and Abu Dhabi increasingly prioritizing health and wellness through government-backed initiatives and a cultural prevalence with luxury solutions. To ensure a smooth cultural transition from Europe, Frank van de Ven, containing over 30 years of experience within the industry, is the proposed director, with alternative options considered.

#### Opening of Stores

Technogym currently operates 13 stores, including a flagship location in Milan, among nine locations in Europe, two in North America (New York and Los Angeles) and two in the Middle East (Dubai and Abu Dhabi). As flagship and boutique stores are essential for driving revenues and enhancing brand recognition, a new strategic plan has been outlined to expand the store network in North America and the Middle East. By 2027, Technogym will operate 22 stores, adding 3 flagship locations. In North America, the selected flagship locations are N.Y. and

L.A., while boutique stores are planned for N.Y., San Francisco, Miami, Houston, and Toronto. The emphasis on New York and Los Angeles reflects the substantial market size and high-profile nature of these locations, as the benefits of additional stores were considered to outweigh the costs. In the Middle East, Technogym's momentum will be seized, expanding to Riyadh, with a flagship store, and to Doha, with a boutique store. The expansion's total capital expenditure is projected at €12.4M, with €10.3M allocated to North American stores and €2.2M for Middle Eastern locations. The projected openings are expected to generate an additional €103M in retail sales by 2029, compared to Technogym's originally forecasted sales.

#### Life Time Preferred Supplier Agreement

When evaluating potential targets, the following criteria were applied: North American presence, brand alignment, sustainability focus and financial capacity. Life Time is one of the largest health club chains in North America, operating over 150 locations, with values such as luxury, digital innovation and minimal environmental impact, and reporting over \$2,200M revenues in 2023 (Life Time, 2024). Life Time's disciplined sustainability plan, with goals to reduce energy and water consumption, aligns closely with Technogym's sustainability objectives. The shared focus on Total Wellness creates a strong foundation for promoting both physical and environmental well-being. Connections to eco-conscious health clubs, particularly in U.S. coastal states, will position Technogym as a sustainability leader, reinforcing its commitment to ESG principles. Moreover, Life Time's commitment to opening 11 new centers annually presents a significant growth opportunity for Technogym. Considering the potential to supply gym equipment for new centers while also addressing the replacement needs for outdated equipment, Technogym is projected to generate revenues starting at €11.8M in 2025, reaching €82.8M by 2029, expecting to capture 75% of the supply share in this segment.

#### **Technological Optimization**

Technology is central to Technogym, powering innovation and personalized fitness

experiences. The Total Wellness Solution differentiates the brand by integrating clients and equipment into a seamless digital ecosystem. However, the current six-app setup creates a poor user experience. Consolidating these into two apps, Technogym Wellness and Technogym Business, will improve usability, reduce maintenance costs, and drive digital demand. Technogym Wellness will cater to individual users, delivering personalized workouts, connecting with Technogym equipment, offering structured training plans, and providing access to interactive content. Technogym Business, designed for B2B users, will provide comprehensive solutions, including equipment management, member tracking, data analytics, CRM, advanced reporting, client retention tools, personalized workout plans, and streamlined setup and maintenance. This strategic consolidation aims to improve user experience across segments, solidifying Technogym's leadership in the connected fitness space.

### **Partnership Leveraging**

Technogym's extensive network of partnerships across various sports provides a valuable opportunity to boost brand visibility and reinforce its market positioning. One partnership with exceptional potential for expansion is with INEOS Team UK in sailing, which opens doors to the broader INEOS Group. This group boasts a diverse sports portfolio that includes several high-profile teams. By aligning Technogym's existing partnerships with INEOS's portfolio, key opportunities emerge, particularly with Mercedes-AMG Petronas F1 and Manchester United. Technogym's existing collaborations with Ferrari and McLaren in Formula 1 offer valuable expertise in the motorsport industry. Adding Mercedes-AMG Petronas F1 to its roster would further cement Technogym's presence in this elite space, enhancing its association with state-of-the-art technology. In football, Technogym already collaborates with various clubs and expanding into the global football market by partnering with Manchester United would significantly strengthen Technogym's standing in the world's most popular sport.

### **1.6.2. Capital Structure**

Technogym's robust cash flow generation and highly negative net debt position (-€87M) present a unique opportunity to optimize its capital structure and maximize shareholder value. By leveraging its balance sheet, Technogym can, not only capitalize on tax shields from interest payments, but also benefit from additional factors that support value creation. Technogym's projected Unlevered Free Cash Flows will be of €189M (CAGR 2024-29 of 9.8%). These strong cash flows provide ample capacity for leverage, enabling the company to gradually pay down debt, enhance equity value, and deliver higher returns to investors. Furthermore, the financial flexibility supports the potential for dividend recapitalization, allowing investor returns during the investment period. However, it is essential to maintain close control over net working capital during the LBO, as it has been a source of volatility for Technogym in the past. Lastly, leveraging will compel management to uphold strong financial discipline, prioritizing high-return projects, controlling costs, and aligning with investor interests.

### **1.6.3. Operational Efficiencies**

An improvement in the EBITDA margin is projected, increasing from 18.8% in 2023 to 20.9% by 2029, in line with historical trends. This growth is mostly driven by the dilution of fixed costs as the business expands, particularly in personnel expenses, which are the main contributor to this margin improvement. Additionally, enhanced negotiating power with suppliers is expected to further support the margin expansion.

### **1.6.4. Horizontal Integration**

#### Target Selection

The selection of the target company was guided by six key criteria designed to ensure strategic and financial alignment while minimizing risk. The first criterion required seamless integration into Technogym's customer journey by providing products or services that enhance the daily routines of health-conscious consumers, aligning with Technogym's mission of promoting

integrated wellness solutions. The second criterion emphasized financial feasibility, limiting the acquisition price to below €150M to avoid overextending resources. The third focused on potential synergies, such as cross-selling and cost efficiencies, to unlock additional value. The fourth required a strong brand reputation and loyal customer base to bolster Technogym's credibility. Operational efficiency and scalability formed the fifth criterion, ensuring smooth integration and positioning for growth. Finally, the sixth criterion emphasized a presence in key markets with the prospect for geographic or segment expansion to broaden Technogym's reach.

### Enervit as the Selected Target

Enervit, a leading Italian sports nutrition company, emerged as the ideal candidate based on these criteria. Specializing in supplements and functional foods that enhance athletic performance, endurance, and overall wellness, Enervit's product line complements Technogym's offerings and integrates seamlessly into its customer journey. Nutritional products represent a significant growth area not yet addressed by Technogym. Enervit meets the financial feasibility criterion, with an estimated acquisition price of €69.3M, well below the €150M threshold. Its potential for synergies is significant, as its complementary industry and Italian origins enable cross-selling through Technogym's global network and cost efficiencies in personnel, transportation, and marketing. Enervit's strong brand reputation and loyal customer base solidifies its position in the Italian market, further strengthening Technogym's domestic presence and providing a foundation for future growth. However, Enervit's limited international presence highlights a key area for improvement. While dominant in Italy, expanding its global footprint will be a strategic priority post-acquisition.

### Enervit Integration Strategy

Enervit has generated €90M in revenues over LTM, with an EBITDA margin of 9.7%. The integration strategy aims to capitalize on diversification benefits and leverage Technogym's global market presence, digital sales platforms, and B2B client network to expand Enervit's

sales channels. By adopting a cross-selling model, Enervit will directly supply its products to Technogym's extensive network of fitness club clients. Overall, Enervit is expected to increase revenues to €198M by 2029. Operational synergies will play a key role in driving efficiency, with anticipated cost savings in personnel, transportation, and marketing due to the companies' shared Italian origins. These initiatives will position Enervit as a key player in the sports nutrition market, reinforcing Technogym's prospects for a successful leveraged buyout.

### **1.7. Business Plan and Forecast**

Technogym's yearly revenues are projected to reach €1,650M by 2029, reflecting a CAGR of 11.1% (2024-29). This strong revenue growth is credited primarily to organic growth, which accounts for 88% of the total. Organic growth will be concentrated in Europe (50.4%) and North America (18.7%), including revenues from the Life Time agreement. Additionally, MEIA contributes 12.5%, APAC 13.1%, LATAM 3.4%, and extra retail sales from store openings account for 1.9%. The remaining 12% will come from Enervit, an inorganic source. Regarding costs, margin improvements are expected to stem from COGS, projected to decrease from 34% of revenues in 2024 to 33.4% in 2029, driven by enhanced supplier negotiation power and anticipated declines in raw material prices, particularly for Enervit. Personnel expenses are forecasted to decline from 19.1% of revenues in 2024 to 18.3% by 2029, reflecting economies of scale and gains in productivity. Lastly, the acquisition of Enervit will unlock cost synergies equivalent to 1.4% of revenues by 2029. Therefore, total EBITDA is forecasted to grow from €185M in 2024 to €358M in 2029 representing a 14.1% CAGR, with an EBITDA margin improvement of 19% to 22%. This performance, alongside strict NWC control, stable maintenance CAPEX, and growing expansion CAPEX to support production capacity, store openings, and R&D investments, is projected to drive strong FCF growth. FCF are expected to increase from €120M in 2024 to €218M in 2029, reflecting a CAGR of 12.7%.

## **1.8. Capital Structure and Returns**

The deal structure was designed to include 47% funding from debt (6.3x EBITDA) and 53% of equity (7.1x). Considering both companies' valuations and their respective EVs, along with fees accounting for 3% of the combined EVs (1% for due diligence, 1% for advisory, and 1% for banking), the total uses amount to €2,257.3M. The debt instrument, expected to raise €1,062.1M, includes both senior and mezzanine debt. Senior debt is divided into three tranches: Tranche A (5.5 years maturity with amortizing payments equivalent to 2.0x of Technogym's EBITDA), Tranche B (6.5 years maturity with a bullet payment equivalent to 1.5x of Technogym's EBITDA), and Tranche C (5.5 years maturity with amortizing payments amounting to 3.0x of Enervit's EBITDA). The mezzanine debt has a 7.5-year maturity, a bullet payment, and a leverage of 3.0x of Technogym's EBITDA. The equity instrument is expected to raise €1,195.2M and include preferred shares (6.7x of Technogym's EBITDA combined with 5.1x of Enervit's EBITDA) and ordinary equity (0.5x EBITDA). Management's contribution (sweet equity) constitutes 10% of the ordinary equity, amounting to €8.7M. By the exit year, EBITDA is projected to reach €358M, with the exit multiple to match the entry multiple at 13.3x, resulting in an EV of €4,772M. Management achieves a money multiple of 28.9x with an IRR of 84.2%, whereas institutional investors realize a return of 3.3x with an IRR of 24.5%.

## **1.9. Exit Opportunities**

At the conclusion of the 5.5-year holding period, three distinct exit strategies were evaluated: a strategic sale, a secondary sale, and an Initial Public Offering (IPO). Among these, the primary exit strategy identified was a secondary sale to another private equity (PE) firm. This approach provides advantages, such as access to a wide pool of potential buyers, leveraging numerous PE firms with sector-specific expertise. It also offers flexibility in transaction structuring. However, it may lead to lower valuations, as PE buyers typically focus on maximizing their returns, potentially resulting in less favorable pricing. After thorough analysis, TPG Capital

emerged as the most suitable acquirer for the secondary sale. TPG's existing investments in the sector, including a stake in Life Time, position it as a strategic buyer capable of unlocking significant value. The secondary option considered was an IPO, which could provide Technogym with the chance to raise capital for growth initiatives, expand into new markets, accelerate innovation, and additional brand recognition in new markets. However, key concerns with the IPO include the volatile nature of market conditions, high associated costs, and its lengthy, resource-intensive process. Lastly, a strategic sale is unlikely. Technogym's size limits the potential for strategic buyers capable of acquiring the company, and management resistance poses an additional barrier. Given the Alessandri family's deep historical ties to the business, their reluctance to relinquish control further diminished the feasibility of this option.

#### **1.10. Key areas for Due Diligence**

A successful investment requires broad due diligence, focusing on four key areas: commercial, operational, financial, and legal. From a commercial perspective, it's crucial to reassure the revenue growth forecasts and their potential, the viability of the supplier arrangement and the store expansion strategy and the analysis of the sports nutrition market. Operationally, it's essential to evaluate the production plants' capacity to meet anticipated increases in output, as well as identify potential supply chain risks and the cost of essential materials, ensuring no unexpected challenges arise. Considering the financial area, it's imperative to review the valuation of Technogym, to avoid an over or under valuation, assess the deal's capital structure to confirm optimal debt and equity levels, and ensure interest rates are aligned with the latest market conditions. Finally, regarding the legal area, it is crucial to examine legislation risks, including subsidiary licensing, fiscal and regulatory requirements related to Enervit's acquisition. Achieving a successful outcome will involve collaborating with leading consulting firms, financial institutions specializing in European deals, and legal advisors with expertise in EU regulation. These collaborations will ensure a high-quality, well-executed transaction.

## **Private Equity Challenge Individual Components**

## **2. Financial Modelling – Individual Component – Duarte F. Amaral (42967)**

Financial modeling is a structured approach to forecasting a company's performance, enabling strategic decision-making and assessing value creation. For this purpose, Technogym and Enervit's financial dynamics were quantified to guide investment decisions.

### **2.1. Revenues**

Total annual revenues are expected to grow to €1,650M by 2029, representing a CAGR of 11.1%. This growth will primarily stem from Technogym's organic growth, expected to contribute €1,452M (88% of revenues) by 2029. The integration of Enervit, coupled with a cross-selling strategy, is forecasted to add €198M (12% of revenues) in the same period. Revenue projections for each company were calculated independently, based on distinct assumptions, before being aggregated to determine the total annual revenue.

#### **2.1.1. Revenues - Technogym**

Given that the investment will commence after the first semester of 2024, revenues for the second semester of 2024 were projected by analyzing the growth observed from 2023's first semester to the first semester of 2024, which amounted to 8.7%. This growth rate was applied to the second semester's revenues of 2023, aligning with historical performance while anticipating minimal impact on revenue generation during the initial months post-acquisition. Estimating revenues for subsequent years presented a challenge, as the company's financial reports do not delineate product categories (e.g., machines, digital subscriptions, after-sales services), sales volumes, or average pricing. To overcome this, revenues were estimated based on regional markets where Technogym operates, rather than by product or customer type.

The fitness equipment market growth in each of Technogym's regions (Europe, APAC, MEIA, North America, and LATAM) was assessed using industry insights from MarketLine, a reliable source of market analysis. Technogym has historically outperformed the market by an average of 9% annually since 2020, according to MarketLine data. For the period from 2025 to 2028,

growth rates were aligned with regional market trends, while projections for 2029 to 2031 considered a gradual convergence toward a long-term growth rate of 2.5%, expected by 2032. This approach, assuming no additional strategic interventions, resulted in a forecasted CAGR of 8.9% from 2024 to 2029.

Considering the two value creation strategies previously outlined, business expansion through new retail store openings and the Life Time agreement, significant additional revenues are projected. For retail stores, revenue estimates were based on the average revenue per store, calculated from historical data, and its historical CAGR of 7.2% (2019–2023). The strategy involves opening flagship and boutique stores in high-potential geographies: a New York flagship in 2024, a Los Angeles flagship and Doha boutique in 2025, Miami and Toronto boutiques, and Riyadh flagship store in 2026, and additional boutiques in New York, San Francisco, and Houston by 2027. Total retail store revenues were calculated by multiplying the total number of stores (existing and new) by the average revenue per store, adjusted for annual growth. The annual incremental revenues attributable to the new store openings, after accounting for existing store contributions, are projected to reach €10.6M in 2025, growing to €26.5M by 2029, with a CAGR of 25.7% over this period. For the Life Time agreement, revenue projections incorporated several metrics: the annual investment by Life Time in fitness equipment, derived from changes in equipment value multiplied by a 20% allocation to gym equipment; the number of current and new centers Life Time plans to open (averaging 11 per year); and equipment replacement needs based on a 6.25% annual replacement rate, assuming a 15-year equipment lifecycle. Technogym is expected to supply up to 75% of Life Time's gym equipment needs under this agreement, starting in 2025. Revenues from this partnership are projected at €11.7M in 2025, scaling to €82.8M by 2029, representing a remarkable CAGR of 62.9% over the period.

By combining Technogym's baseline revenue projections with the additional contributions

from retail store openings and the Life Time agreement, total revenues are forecasted to reach €1,451.7M by 2029. This reflects a CAGR of 10.6% from 2024 to 2029, highlighting the transformative impact of the proposed strategies on the company's growth trajectory.

### **2.1.2. Revenues - Enervit**

For Enervit, the same methodology applied to Technogym was utilized to project revenues for the second semester of 2024. Revenue forecasts for subsequent years were categorized into two streams: revenues from Enervit's current business strategy, which includes sales of sports nutrition products in Italy, internationally, through its website, and via indirect sales; and revenues from a new cross-selling strategy, leveraging Technogym's gym partnerships to introduce Enervit products directly to gym-goers.

Considering the current business strategy Enervit revenues were forecasted similarly to Technogym's, using market forecasts to estimate revenues by region. Following that rationale, data from EuroMonitor International was used to estimate the growth of the Italian and international segment, reaching CAGR's 4.3% and 7.9% for the 2024-29 period. Similarly, to estimate the digital sales of Enervit products, Statista forecasts for e-commerce were used as an input, leading to a CAGR of 9.5% in 2024-29. Consequently, the current strategy of Enervit, generates €122M in revenues in 2029, with an overall CAGR of 5.2%.

The new cross-selling strategy involves introducing Enervit's protein bars and gels through vending machines placed in gyms equipped with Technogym equipment. This initiative targets Europe (excluding Italy), Italy, and North America, selected for their strong alignment with Technogym's market presence and consumer behavior. The strategy hinges on several critical inputs and assumptions. The average gym membership was estimated at 900 members per gym (WOD Guru, 2024), with regional variations in average annual spending on protein products (€549 in Europe excluding Italy, €681 in Italy, and €602 in North America) (MyProtein, 2019). Technogym's 85,000 partnered gyms were distributed regionally according to historical

revenue proportions. Initially, it was assumed that 1.5% of gyms in each region would adopt the vending machines, with 1.5% of gym members purchasing Enervit products. Adoption and consumption rates were projected to grow rapidly, 50% per year for the first three years, narrowing to 20% in subsequent years. Based on these inputs and assumptions, the cross-selling strategy is expected to generate €6.7M in its first year of implementation (2025) and scale to €75.9M by 2029. This initiative drives significant incremental revenue, supported by its alignment with Technogym's extensive gym network and consumer trends. Combining both strategies, Enervit's contributions are forecasted to reach €198M by 2029, representing 12% of the total combined revenues of the integrated business. This underscores the synergistic potential of integrating Enervit into Technogym's ecosystem and the strategic value of leveraging cross-selling opportunities.

## **2.2. Operating Expenses**

Total operating expenses are projected to reach €1,292M in 2029, accounting for 78.3% of total revenues, marking a significant improvement compared to 2024, when they represented 81% of total revenues. This reduction is attributed to decreases in COGS, lower personnel expenses, and increased synergies resulting from the acquisition of Enervit. Like the revenue analysis, operating expenses for each company were calculated independently based on specific assumptions and then combined to provide a comprehensive view of the consolidated entity.

### **2.2.1. Operating Expenses - Technogym**

The modeling of Technogym's operating expenses was conducted based on historical metrics and trends. For COGS, cost of services, other operating costs and equity from joint ventures, historical averages over the past three years were assumed, as these costs have remained stable as a percentage of revenues, reflecting Technogym's strong control over its supply chain. COGS are projected to remain at 34% of revenues, the cost of services is expected to stay at 25.5%, while the other operating costs and equity are expected to be around 1% of revenues, resulting

in a combined total of €879.9M in 2029.

Personnel expenses were modeled using a more detailed approach, incorporating three key metrics: the number of employees in each category (managers, white-collar, and blue-collar), average wages per employee, and projected inflation. Each category of employees was forecasted differently based on their roles and historical correlations with business growth. For managers and white-collar workers, their yearly growth was calculated by multiplying revenue growth by the correlation between revenue and each employee category (0.77 for managers and 0.89 for white-collar employees). Blue-collar employees were assumed to remain constant, reflecting the stability of factory operations and the need to maintain workforce levels for new production demands. The average wage per employee was forecasted using a regression analysis based on historical wage data (2014–2023) and projected inflation. By multiplying the total number of employees by the average wage, annual personnel costs were determined. Additional costs, such as social security, employee benefit obligations, and other personnel-related expenses, were then derived from wage costs to calculate total personnel expenses.

As a percentage of revenues, personnel expenses are expected to be 19.2% in 2029, amounting to €258.1M. This reflects improved efficiency and a disciplined approach to managing workforce-related costs. Technogym operating expenses, as a standalone, are projected to be €1,153M in 2029, which account for 69.9 % of total revenues.

### **2.2.2. Operating Expenses - Enervit**

For Enervit, the approach to forecasting COGS differed due to the company's reliance on specific raw materials, such as cocoa and sugar, essential for producing its sports nutrition products. Historical and forecasted raw material prices per ton (including cocoa, sugar, corn, milk, and coffee) were obtained from EuroMonitor International. Each material was weighed based on its relative importance in Enervit's products, resulting in a composite raw material price per ton. This metric demonstrated a strong historical correlation (0.95) with COGS as a

percentage of revenues.

To project future COGS as a percentage of revenues, a regression analysis was conducted using historical data on raw material prices and COGS. Based on forecasted raw material prices, COGS as a percentage of revenues were derived. However, since raw materials alone do not account for all COGS, packaging and other components also play a role, the historical average of COGS as a percentage of revenues was incorporated into the analysis. A 50-50 weight was applied to the raw material-based estimate and the historical average to calculate the final COGS values. With raw material prices, particularly cocoa, projected to decrease following recent spikes, COGS as a percentage of revenues are expected to decline from 34.4% in 2024 to 29.3% in 2029. This translates to total COGS of €57.9M in 2029, reflecting a notable margin improvement.

For cost of services, the same methodology used for Technogym was applied, relying on the historical average of 40% of revenues. This results in forecasted cost of services of €79.2M in 2029. Personnel expenses were modeled similarly to Technogym's approach. The number of employees was forecasted based on correlations with revenue growth. It was assumed that the average wage per employee would align with Technogym's, given the integration of Enervit employees into the combined company, with wages adjusted accordingly. Total wages were calculated and used to derive additional personnel costs such as social security and pension contributions. This results in total personnel expenses of €29.1M in 2029, equivalent to 14.7% of revenues. Enervit operating expenses, as a standalone, are projected to be €166.4M in 2029, which account for 10.1 % of total revenues.

### **2.2.3. Synergies - Combined Company**

The acquisition of Enervit will generate not only increased revenues but also significant cost synergies. Both companies operate in Italy, with production facilities located in close proximity – Technogym's headquarters and production plant in Cesena, and Enervit's two production

plants in Zelbio and Erba, which are near each other. This geographical alignment facilitates operational integration and creates opportunities for cost optimization. To quantify these synergies, insights from Deloitte and LEK reports were used to identify key areas of impact. Three specific expense categories were evaluated for potential synergy gains: personnel expenses, transportation costs, and marketing expenses.

For personnel expenses, the integration of operations provides an opportunity to streamline roles, particularly among managers and white-collar workers, where overlapping functions exist between the two companies. This is projected to reduce annual hires in these categories by 20%, based on standalone workforce estimates for each company. In terms of transportation, joint distribution efforts will enable greater efficiency, allowing products from both companies to be transported together. This optimization is expected to yield a 2% annual reduction in transportation costs. Similarly, marketing expenses can be reduced by consolidating campaigns to promote products from both companies simultaneously. This approach is forecasted to achieve a 2% annual reduction in marketing costs.

Altogether, these cost synergies are projected to result in savings of €23M by 2029, equivalent to 1.4% of total revenues. These savings highlight the strategic value of the acquisition, and the operational efficiencies gained through the integration of Enervit and Technogym.

### **2.3. EBITDA**

For Technogym as a standalone entity, the EBITDA margin is projected to increase from 20% in 2024 to 22.3% in 2029. This improvement will drive EBITDA growth from €176M in 2024 to €324M in 2029, reflecting a CAGR of 13% over the period.

For Enervit, the EBITDA margin is forecasted to rise significantly, from 9.6% in 2024 to 17.4% in 2029. This improvement underscores the business's scalability, particularly through leveraging Technogym's relationships with gyms, which enable cross-selling opportunities. As a result, Enervit's EBITDA will grow from €9M in 2024 to €34M in 2029, achieving a CAGR

of 30% during this timeframe.

Combined, the total EBITDA margin for the integrated business is expected to increase from 19% in 2024 to 21.7% in 2029. This will result in EBITDA growth from €185M in 2024 to €358M in 2029, reflecting a CAGR of 14.1%. These results highlight the effectiveness of the value creation strategies, not only in driving revenue growth but also in optimizing costs and improving overall profitability.

## **2.4. CAPEX**

CAPEX was forecasted separately for Technogym and Enervit to account for the distinct investment needs required to implement their respective strategies. CAPEX was divided into two components: maintenance CAPEX, which supports sustaining current revenue levels, and expansion CAPEX, which focuses on driving revenue growth. By 2029, the combined CAPEX for the integrated company is projected to reach €82M, reflecting the strategic investments necessary to achieve the previously defined objectives.

### **2.4.1 CAPEX – Technogym**

For Technogym, maintenance CAPEX was projected based on its historical percentage of revenues (2.5%), reflecting the company's consistent capital needs relative to its business volume. By 2029, maintenance CAPEX is forecasted to reach €36M.

Expansion CAPEX, on the other hand, was divided into three categories: increasing production capacity, investments in R&D for new products and processes, and expenditures on stores and commercial sites. The first two categories were also estimated as a percentage of revenues, 0.35% for production capacity and 1.85% for R&D, reflecting the need for higher production volumes to support growth and continuous product innovation, a hallmark of Technogym.

For store and commercial site investments, a tailored approach was used to model costs, given the specific strategy to open new retail stores. Two key metrics were considered: the cost per square foot for each location and the projected size of each store, with flagship stores being

larger than boutique stores. An additional 20% provision was added to account for unforeseen costs typical in such projects. For example, the flagship store in New York, scheduled to open in 2024, is projected to cost €3M (€503 per square foot for 5,000 square feet). The Los Angeles flagship store, opening in 2025, has an estimated cost of €1.5M (€249 per square foot for 5,000 square feet). Boutique stores, with a smaller size of 3,500 square feet, have costs ranging from €149 per square foot in Houston to €303 per square foot in Toronto. Individual boutique store costs are as follows: Doha (€1M), Miami (€0.7M), Toronto (€1.3M), Riyadh (€1.2M), New York (€2.1M), San Francisco (€1M), and Houston (€0.6M). The total investment for all nine stores, opening between 2024 and 2027, amounts to €12.5M. By 2029, expansion CAPEX for Technogym is projected to be €32M, focused exclusively on production capacity and R&D, as no store openings are planned for 2028 and 2029.

#### **2.4.2 CAPEX - Enervit**

For Enervit, the CAPEX modeling methodology was aligned with the one used for Technogym, with maintenance and base expansion CAPEX forecasted as percentages of revenues (3.3% and 2.7%, respectively). In addition to these categories, CAPEX for vending machines was included as part of the cross-selling strategy. To encourage gym clubs to adopt the exclusive sale of Enervit products, it was assumed that the company would cover the cost of the vending machines. The average cost per vending machine was estimated at €5,081 (Vendsoft, 2024) and was multiplied by the forecasted number of gyms expected to adopt the strategy each year. By 2029, maintenance CAPEX is projected to be €5.3M, while total expansion CAPEX, including vending machines, is estimated at €8.6M. This brings Enervit's total CAPEX for 2029 to €13.9M.

#### **2.5 Net Working Capital**

For Net Working Capital (NWC), the same approach was applied to both companies. The forecast was modeled using the Cash Conversion Cycle (CCC), from which the individual

components of NWC were derived. For Technogym, the forecast assumed the continuation of its historical trends, with Days Inventory Outstanding (DIO) at 138 days, Days Sales Outstanding (DSO) at 52 days, and Days Payable Outstanding (DPO) at 221 days, resulting in a negative CCC of 32 days. Based on these inputs, inventories (DIO) and trade receivables (DSO) were projected, while other current assets were estimated as a percentage of revenue based on historical averages, yielding total current assets. For liabilities, trade payables were derived from DPO, while other current liabilities, current tax liabilities, and current provisions were estimated as historical percentages of revenues, resulting in total current liabilities. For Enervit, due to the limited detail in its balance sheet, only inventory, trade receivables, and trade payables were modeled using the same approach, applying last year's metrics: DIO of 125 days, DSO of 65 days, and DPO of 249 days.

After calculating the NWC levels for both companies, the values were aggregated, and the changes in NWC were determined. These changes will need to be carefully managed throughout the holding period to ensure the success of the LBO.

## **2.6. Unlevered Free Cash Flows**

Based on the projected metrics, operating cash flows are expected to grow from €169M in 2024 to €300M in 2029, reflecting a CAGR of 12.2% over the period. Investment cash flows are forecasted to change from -€49M in 2024 to -€82M in 2029, with a CAGR of 11%. The unlevered FCF for the combined group shows robust growth, increasing at a CAGR of 12.7% from 2024 to 2029. This performance is driven by strong EBITDA conversion, disciplined CAPEX allocation, and efficient working capital management. These factors ensure sufficient flexibility to fund growth initiatives and facilitate debt repayment. As a result, the unlevered free cash flows are projected to increase from €120M in 2024 to €218M in 2029, signaling a robust financial outcome that supports the potential for substantial value creation through the planned investment strategies.

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